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COUNCIL ON FOREIGN RELATIONS

CHARLES P. HOWLAND
DIRECTOR OF RESEARCH

SURVEY OF AMERICAN FOREIGN RELATIONS

1928

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AMERICAN FOREIGN RELATIONS

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CHARLES P. HOWLAND

DIRECTOR OF RESEARCH
OF THE COUNCIL ON FOREIGN RELATIONS
RESEARCH ASSOCIATE IN GOVERNMENT AT YALE UNIVERSITY

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COUNCIL ON FOREIGN RELATIONS

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PREFACE

THE Council on Foreign Relations has inaugurated the series of volumes of which this is the first as an attempt to examine comprehensively and continuously the foreign relations of the United States. There will be a discussion of selected topics; the subjects chosen each year will be those in which a culmination of some sort has thrown the questions involved into high relief, or those which have come to a stage of temporary arrest and so allow of deliberate examination.

It is proposed to examine a field somewhat broader than that covered by the term "foreign policy." That term suggests the conscious formulation of principles upon which our state bases its attitude toward other states, and the administration of those principles by official organs of government; the Survey is intended to cover also the events and circumstances in the relationships of the United States with any foreign country or people which affect or may come to affect our governmental policy or the action to be taken by groups of American citizens in international affairs. Thus, not only matters at present political will be reviewed, but those of an economic character which may have a political outcome, domestic or international. So much of the historical background of each topic will be given as may be necessary to illumine present-day happenings. Some topics will require reëxamination: the world is a living organism, growing and changing; nothing, therefore, is permanently "settled," and all international relations are both continuous and fluctuating.

Each volume will bear the date of the year of its publication. In general, it will bring the topics chosen for discussion down to the beginning of the year of its date; the topics contained in the present volume, for instance, are brought down to January 1, 1928. In this respect, as well as in some others, it will differ from the British *Survey of International Affairs* published by the Royal Institute of International Affairs, whose volumes bear the date of the year containing the latest events with which they deal.

The general policy of the Council on Foreign Relations in this as in its other publications is to present an unbiased statement of facts and a fair interpretation of policy. Interpretation of policy

may at one time or another require the presentation of a point of view; but our effort will be directed toward objectivity, and there will be no bias either in favor of official or prevailing policies or against them.

The editor desires to express his cordial gratitude to Arthur Bullard, who prepared the section on Limitation of Armament, a part of Traditions, and a chapter in the section on the League of Nations; and to Quincy Wright, who prepared the chapter on Domestic Control. It is intended to continue this practice of enlisting the collaboration of contributing specialists.

All of the material contained in the Survey has been examined not only by the Committee on Research but by other authorities or specialists, and their comments and constructive suggestions have been of great value. Help of this fruitful character has been given by Messrs. James P. Baxter, Charles A. Beard, Tasker H. Bliss, Norman Burns, M. E. Curti, Norman H. Davis, Tyler Dennett, John Foster Dulles, Sidney B. Fay, Virgil Jordan, John H. Latané, H. Barrett Learned, Walter Lippmann, A. Lawrence Lowell, Walter Hampton Mallory, Edwin B. Parker, and James T. Shotwell. The Council on Foreign Relations is responsible for the undertaking and, through its Committee on Research, for the choice of an editorial staff; the whole volume was put in its final form by the editor who therefore assumes responsibility for its contents.

Especial acknowledgment must be made to the editor's staff associate, Mr. Herbert B. Elliston, who prepared the sections on the United States as an Economic Power and Financial Relations of the United States Government after the World War, and gave general assistance in the preparation of the volume.

Thanks are due to the staff of the Yale University Press for its collaboration in the enterprise.

* * * * *

To our critics, we offer the petition of Master Caxton: And I require and beseech all such that find fault or error, that of their charity they correct and amend it, and I shall heartily pray for them to Almighty God, that he reward them.

C. P. H.

New Haven
August 1, 1928.

ERRATA

p. 183, 1st par., 8th line, *read* "citizen" *instead of* "nation."

p. 248, 2d par., *read* "member of" *instead of* "reporting member attached to."

p. 249, 2d par., *read* "Attorney-General Gregory" *instead of* "Lord Grey."

p. 252, 2d par., *read* "about fifty aides and experts, five hundred assistants, and another seven hundred chauffeurs, guards, orderlies, and clerical helpers were attached to" *instead of* "1,300 . . . were picked to accompany."

p. 406, 3d par., *read* "Even before" *instead of* "After."

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I.

AMERICAN FOREIGN POLICY

CHAPTER ONE

FACTORS AND FORCES

THE COURSE OF POWER

POLITICAL thinkers are now learning to take account of the fact that for the first time in two thousand years the strongest single force is outside of the European continent. That which Pitt began when he destroyed French power on the American continent and put an end to European rivalries on this side of the world has reached its consummation.

The ancient world had little coördination except that resulting from breathing spells in warfare. Chaldean, Assyrian, Lydian, and Persian conquests and dominations succeeded one another; he who could make himself Leviathan held what power there was until his overthrow. The opposition of the Hellenic world to the flood of the Persians was the first successful effort to substitute voluntary federation, however reluctant, for the practice of mutual destruction. The Athenians made the earliest concrete proposal for toleration by agreement: they offered to Philip in 341 B.C. an amendment to the existing treaty which would include all the Greeks in the peace, guarantee their freedom and autonomy, and bring all to the aid of any one of them who might be attacked.

Meantime, remote from the Oriental idea of universal dominion, the power of Rome was beginning its pacific growth by alliances with Latin communities of the Campagna, not by wars of aggression and conquest. But even Rome, with her superior and more organized lowland civilization, had eventually to turn to force in resisting and reducing to order the restless and populous hill tribes whose forays incessantly disturbed Roman peace. The intolerable disturbances of Sabini, Aequi, and Volsci were put down, their territories tranquilized, themselves taken into alliance or confederation. Rome showed no definite expansionist tendency until about 350 B.C.; and even when expansion began, it was more incidental than purposeful in that it was mainly a consequence of maintaining order on the frontier. It was not until the Romans had brought the Italian peninsula into subjection that they adopted

an imperialistic policy, and the outcome of this process was that universal dominion from which the parts fell away in proportion to the decay of the central nervous system.

BALANCE OF POWER IN EUROPE

After the emergence of Europe from the Dark Ages, coalitions of rising nationalities swayed to and fro in a locked struggle, in whose dark confusion can be distinguished a determination that whatever might be the opposing demands of dynastic blood, or race, or recent alliance, no Power should long remain the master of Europe. Sometimes this determination created an equipoise of groups; at other times a counterpoise, which destroyed an aggressor in order to prevent too great an accession of power. The evolution of Europe has been dominated for centuries by the fear of hegemonies: of Spain, of the Holy Roman Empire, of France, and of Germany, against which more or less powerful coalitions were formed whose *raison d'être* was best defined by Frederick the Great: "*cette balance qu'établit en Europe l'alliance de quelques Princes considérables pour s'opposer aux Ambitieux, n'a pour but que le repos du monde.*" In the same vein were the instructions to Talleyrand for his conduct at the Congress of Vienna.

It is a combination of the mutual rights and interests of the Powers, by means of which Europe aims at securing the following objects:

1st. That no single Power, nor union of Powers, shall have the mastery in Europe.

2nd. That no single Power, nor union of Powers, shall be at liberty to infringe the actual possession and recognized rights of any other Power.

3rd. That it shall no longer be necessary, in order to maintain the established state of affairs, to live in a state of imminent or actual war, and that the proposed combination shall secure the peace and repose of Europe against the efforts of a disturber, by diminishing his chances of success.[1]

For geographical reasons the assertion of coalition against at-

[1] Gerard, *The Peace of Utrecht*, p. 393, translated from correspondence between Prince Talleyrand and Louis XVIII.

tempted hegemony came to depend largely upon England, who maintained it with her navy and her control of seaborne commerce. Philip, Louis XIV, Napoleon, the Pan-Germans—all their "grand schemes of war and diplomacy," as Trevelyan says, "depended on the battleships of England tossing far out at sea." Thus the successive efforts of Napoleon and of German imperialism to develop sea power were the most serious bids for predominance, for they combined with military strength the element which could menace the security of Great Britain and hence of European tranquillity.

Out of these conditions grew the doctrine of the "balance of power," in the sense of an equipoise of military strength between two groups of European Powers intriguing for allies and matching military outlay with military outlay. This was the state of things in which the Entente was pitted against the Alliance, each with its satellites, the whole so carefully balanced in military strength that when the power of Turkey was crippled by the Balkan wars, it became necessary for the Triple Alliance of which Turkey was an appendage immediately to increase its military appropriations. But the relative strength of such groups in resources, man-power, and prestige was never static; there was no equilibrium, only a striving for equilibrium, and international relations reflected the instability, charging the atmosphere with uneasiness. Normal events thus received sinister interpretations and any untoward event contained the ingredients of explosion.

It was this "game" which President Wilson denounced in his address before Congress on February 11, 1918; "the great game, now forever discredited, of the balance of power." At Manchester in England he told his audience that "if the future had nothing for us but a new attempt to keep the world at a right poise by a balance of power, the United States would take no interest, because she would join no combination of power which is not a combination of us all." One result of the World War is designed to give the *coup de grâce* to this kind of world order; the League of Nations proposes to replace the pre-war modus and to make universal those tendencies of European policy which do not admit of the domination of the weak by one or two strong Powers acting

clearly in their own interests. It is a criticism of present-day civilization and not of the League that the conception is in advance of the morality of the times. It cannot hope in a generation to gain general allegiance to its chartered basis of international relationships, for national power is still sought in the material realm, and national security is still sometimes looked for in the old refuge of "defensive" alliances, as is manifest in the new Balkans and in the Balkan relations between France and Italy. Yet to an increasing extent existing regional balances in post-war Europe owe their equilibrium to the League; Corfu and Vilna come to mind in this connection. Men are groping toward a more pacific ordering, and are more than ever conscious of the necessity for world organization, and more than ever in revolt against the grip of political forces. They see that the old system of opposing groups trying to outbid each other creates fear and resentment and leads ultimately to catastrophe.

PURSUIT OF NATIONAL SECURITY

THE year 1898 marked America's cognizance of her place in the new world order. In that year the Spanish-American War accelerated existing forces, and the crowded years from 1898 to 1914 gathered up a number of diverse tendencies which had not hitherto been recognized as integral parts of a common development.

The corner stone of American foreign policy before then had been the achievement of national security. In her desire for this *summum bonum*, the United States had not been different from other states, but the geography and the economics of her situation were so different from theirs that the American Government had departed widely from the orthodox canons of statecraft of the transatlantic states. In securing a strategic boundary the United States could spread out over uninhabited spaces, reach from sea to sea, and from the Gulf to the Lakes. Men whom other nations required to stand guard on the boundary, the United States could put to clearing the forests, breaking the prairie, and operating the factory. For a century, while other states were under the necessity of increasing naval armament, the United States was

under no such compulsion notwithstanding the fact that her merchant ships until 1860 were known in every port. There was less necessity to increase armaments after 1860, for foreign trade began to decrease as new territory was opened up.

Toward the close of the century the need for a navy developed. The acquisition of Hawaii, Samoa, and the Philippines stirred men's imagination, and the shadows of the coming expansion in the Caribbean stretched across the last decade of the nineteenth century. More important, the capital and commercial energies of the European Powers had for a generation been pressing out to the commercial frontiers in the American continent. Each decade the competition of the European countries for world markets, reinforced by the military or naval power of government, became more energetic, and constituted in the western hemisphere a direct bid for the markets, and a potential challenge to the policies, of the United States. As the United States became a World Power she had to adjust her statecraft to meet a new set of world conditions which were fundamentally the creation of European nationalism. The corner stone, however, remained the same: the preservation of national security.

Let American foreign policy be reviewed on the page of an historical atlas of the United States, and it will be realized that territorial expansion has been a major impulse of that policy and that the dominant motive back of expansion has been self-protection. This expansion has been militant at times, but the militancy has been sporadic with the boyish unconcern of democracy. The American people and their representatives in Congress have usually not been conscious that their security or prosperity was more than a domestic problem; it has been a characteristic of the American people, in fact, to resolve every political and economic question into a domestic one and to ignore its foreign relations.[2]

At the close of the American Revolution the United States comprised thirteen relatively small federated states along the middle Atlantic seaboard of North America, surrounded, save for her

[2] "In the New World, far more than in the Old, foreign and home politics are linked together, and to follow either is to study the institutions of Republicanism." Reddaway, *The Monroe Doctrine,* p. 2.

coastline, by the possessions of European states. The greater part of the present state of Maine, the upper Connecticut valley, the basin of Lake Champlain, northern New York, the valleys of the Great Lakes, the Ohio, and the Mississippi and indeed of all other rivers flowing into the Gulf were either in dispute or were threatened. Within sixty-five years the United States had reached an approximate agreement as to the northern boundary, crowded every European state out of the western territory, acquired the Pacific Ocean for a western boundary, eliminated Spain from the Atlantic and Gulf coasts, and established in the Gulf of Mexico a position of approximate parity with Spain, France, and Great Britain. Indeed, national security is such a relative term, so dependent upon the character of communications and methods of warfare at any given moment, that the United States in 1850 may be said to have been more secure than she was half a century later. A single naval base in the Caribbean in 1900 was a greater potential menace to the United States than all of the European possessions in that region in 1850.

It is proper to remember that the gigantic forward strides of the young state were assisted by a peculiar set of European political conditions which had relaxed the grip of France and Spain and left England loath to prosecute an aggressive colonial program in the western hemisphere. But we must also bear in mind that the American advance was due to some extent to far-seeing statesmanship. The purpose of dominating North America was not infrequently expressed by Benjamin Franklin and was present in the Continental Congress. The "plan of treaties" adopted by the Congress in September, 1776, to be used as a model for the projected treaty of alliance with France, contained the following significant article:

Art. 9. The Most Christian King shall never invade, nor under any pretense attempt to possess himself of Labrador, New Britain, Nova Scotia, Arcadia, Canada, Florida, nor any of the Countries, Cities, or Towns, on the Continent of North America nor of the Islands of Newfoundland, Cape Breton, St. Johns, Anticosti, nor of any other island lying near to the said Continent, in the Seas, or in any Gulph, Bay or River, it being the true intent and meaning of

this Treaty, that the said United States, shall have the sole, exclusive, undivided and perpetual Possession of the Countries, Cities, and Towns, on the said Continent, and of all Islands near to it, which now are, or lately were under the Jurisdiction of or Subject to the King or Crown of Great Britain, whenever they shall be united or confederated with the said United States.

One may fairly read into this article the intention to oppose all increase of European power in the western hemisphere and to reduce it at every convenient opportunity. In the treaties with France it became necessary to compromise by agreeing that any captured British territory in the Gulf should go to France, but the course of history for a hundred and fifty years shows clearly that the United States has held as steadily as circumstances warranted to her original purpose as expressed in the "plan of treaties."

Every step in the territorial expansion of the United States has been a step in the accomplishment of this purpose to reserve America for Americans and for systems of government in harmony with American political principles. The purchase of Louisiana had for its immediate object the freeing of the Mississippi valley from European control. The greatest accomplishment of the Treaty of Ghent was to assure to the United States the use of the Great Lakes and to make secure the territory north of the Ohio. The purchase of Florida represented one more step in the program to crowd European Powers off the western hemisphere. The Monroe Doctrine restated the principle incorporated in the "plan of treaties"; it placed the United States in open opposition to the extension of European colonies and to the reëstablishment of European political institutions.

The Rush-Bagot agreement as to armaments on the Great Lakes (1816), followed by the Webster-Ashburton treaty (1842) and the settlement with England of the Oregon question (1846), placed Anglo-American relations on a footing sufficiently secure to make it improbable that the United States will ever again seriously consider the acquisition of Canada or an effort to expel Great Britain from the Caribbean regions. This external harmony in Anglo-American relations was assisted by the series of political

and social reforms in England by means of which Great Britain entered the category of essentially democratic governments. Such changes promoted in America fundamental good will toward England, notwithstanding the multitude of petty quarrels. Not for a long time has American policy felt any urge to wrest Canada from Great Britain, and the United States feels an added security in the autonomy which her neighbor has received, and in the enjoyment of which the Canadians have developed types of thought and habits of societal behavior akin to those of the American people. The political system of England is no longer thought dangerous to American institutions.

The annexation of Texas and the Mexican War, as a result of which the vast territory west and north of Texas reaching to the Pacific Coast was acquired, seem at first glance to be inconsistent with the anti-European policy. This vast area was no longer a colony of Spain, and the action taken by the United States cannot be explained as an application of the Monroe Doctrine. Contrary to general supposition, the Monroe Doctrine is not the diplomatic grounds of all American foreign policy south of New Orleans; only two years after the pronouncement of the Monroe Doctrine another policy was laid down which passed almost unnoticed. First Colombia and then Mexico was rumored to be contemplating an expedition against the power of Spain in Cuba with the intention of removing the last Spanish threat to her independence. Cuba, freed from Spain, would, so it may have appeared to the Spanish American statesmen, no longer afford shelter and protection to a Spanish fleet which might at any favorable moment sail westward to renew the struggle with the lost colonies. The rumor was disturbing to the American Government. Such an effort on the part of Colombia or Mexico would not fall under the ban of the Monroe Doctrine; on the contrary, it might appear to be in line with it, for it would represent still another attempt to crowd Europe out of the hemisphere. Actually such an effort, if successful, would have cast Cuba adrift and would have made her the sport of some other transatlantic Power, and would almost certainly have led to slave emancipation, so odious to Southern statesmen because of its epidemic nature. Henry Clay, as

Secretary of State under John Quincy Adams, forthwith instructed the American representatives in Colombia and Mexico to warn these states that such an expedition would not meet with the favor of the United States. The new policy thus defined amounted substantially to this: not only would the United States oppose the extension of European dominion in the western hemisphere, but she would also oppose the extension of any political power in the regions adjacent to the southern boundary of the United States. This policy passed unnoticed in 1825 but it did not lapse, and the American Government took a similar attitude in 1927, when there was evidence of Mexican activity in Nicaraguan domestic affairs.

The Mexican War has often been held up as the shame of American history. Although fine spirits like Lincoln and James Russell Lowell felt that the attitude of the American politicians and people was provocative and thought the war abhorrent, it satisfied the standards of those days, and was deemed inevitable. It was likewise inevitable that at the close of the war the United States, influenced by the westward flow of an American population and by the traditional policy of working out territorial security, should acquire what was needed to round out the southern boundary and carry it to the Pacific Coast. A Mexico which had been unable to administer Texas and could not hold it against the Texans, and at the same time had lost control of California, would never have been able to defend the area from the attacks of any Power; the action of the United States forestalled a situation in which American security might have been imperiled. The United States, acting as every successful state would have acted, could brook no rivals in North America: this was cardinal American policy.

The Clayton-Bulwer treaty would also seem to have revealed a departure from traditional policy in that it contemplated an isthmian canal under the joint control of all interested Powers. But the United States did not grant to England rights which she did not already possess by virtue of her position in Central America and in the Caribbean; the treaty represented an effort on the part of Secretary Clayton to effect a reduction of those rights, an effort which was moderately successful. By the Clayton-Bulwer treaty

the United States edged forward in her policy of crowding transatlantic Powers out of the western hemisphere.

OTHER OBJECTIVES CONSEQUENT UPON GROWTH

ALLIED with the policy of territorial security and supplementary to it was that of economic strength. No state is master of its own development until it has achieved a greater measure of economic power than the original thirteen states possessed.

Before the Revolution trade had been largely financed by long-term credits supplied by England, the colonies' chief customer. The war itself had been financed by French and Dutch loans which had been made, at least in the case of the French, mainly for political purposes. The first administration of Washington was marked by financial conditions which threatened general bankruptcy. From the British West Indies, the former source of most of the hard money in the colonies, American commerce was excluded. Elsewhere in the ports of the world, in those of Europe and of Europe's colonies, American trade faced the bulwarks of the old mercantilist system or was subjected to the whims of dynastic conflicts. By 1914, the United States, although to a diminishing extent she was still a debtor nation, although she was still buying and borrowing more than she was selling and lending in the world's markets, had achieved economic independence and in few ports in the world was her commerce subjected to political restrictions not shared by rival nations.

From the outset the commercial foreign policy of the United States was determined by the fact that the American people were either unable or unwilling to support war for the sake of economic advantages, least of all for such an economic monopoly as that enjoyed by the British or Dutch East India Company. Since American commercial policy had of necessity to be prudent and conciliatory, to employ the characteristics of weakness rather than of strength, the prosperity which attended it was therefore the more notable.

The policy of neutrality, the inclination to arbitrate rather than fight, the abstention from alliances, and the "open door"

policy, were all more or less involuntary choices of a government whose people were unprepared to fight. The Monroe Doctrine itself was not without its economic aspects. The American people had to fear not only the reëstablishment or extension of European dominion on the continent; they had also to fear that with that dominion would come the old mercantilism which, though dying, was not yet dead. In short, they had to fear that in Spanish America their ships and traders would be treated as then they were treated in the West Indies.

When one frankly recognizes the economic background of these policies one is better prepared to understand the forces which since 1914 have been at work to modify the traditional policies of the nation. The spirit of American frontier life was provincial, and could hardly be described as pacific. American commercial policy, on the contrary, obviously could not be provincial and was of necessity conciliatory; the American merchant abroad had no choice but to seek peace and pursue it.

The heart of American commercial policy was "most-favored-nation treatment." The United States in her first commercial treaty secured most-favored-nation treatment from France and thereafter she sought to incorporate the principle, in its conditional form, into all of her commercial relations with foreign states, even with the little kingdom of Hawaii. Far from asking for her nationals exclusive commercial rights she sought only to make sure that in the territory of a foreign state her merchants should be subjected to no restraints not shared by other foreign merchants. A free field and no favor was all that the American merchant expected.

To these simple objectives of territorial security and economic strength the American Government held consistently through changing administrations, Democratic and Republican. The methods put forward to attain these ends showed occasional variations, but seldom was any political party long identified with a particular measure, and in general these methods were peaceful: arbitration, conciliation, purchase.

There was in the earlier days of the republic a third objective which represented hardly more than a pious wish. The American

people usually favored in another state the party which most closely identified itself with popular liberty and free institutions; the American Government was sometimes dangerously close to an infringement of its cardinal principle of non-intervention in the domestic affairs of other states. In the fat and opulent 'eighties the customary practice of recognizing the *de facto* governments which usually follow revolutions was somewhat qualified by insistence that a new government, to obtain recognition, must specifically engage to assume the international obligations which had been recognized or assumed by its predecessor. This modification in the recognition policy foreshadowed a changing temper in Americans which has in the last ten years made them the most conservative of peoples, as is borne out in our relations with Soviet Russia and in our attitude toward those applicants for admission to our shores who are notoriously reformist.

ECONOMIC MATURITY

It may be assumed from what has been said that no new American foreign policies emerged in 1898. The project to intervene in Cuba was already so old as to have become traditional. The notable fact was that notwithstanding the numerous projects to take possession of Cuba, Congress at last passed a self-denying ordinance and foreswore its liberty to annex in the case of a successful war. The project to annex Hawaii had been fully considered in 1853, in 1867, and periodically thereafter in connection with the tariff question. A naval base in the Far East had been frequently advocated in the 'fifties and was earnestly recommended by Commodore Perry who drew upon his head no reproof for his imperialism. In fact, in 1898 the United States merely resumed a course of development in foreign relations which had been interrupted by the Civil War.

But a new force was complicating our policy, namely, economic maturity, which had become apparent after the recovery from the panic of 1893. With wealth came a new and abounding sense of power. The easy successes of the Spanish-American War brought a self-assurance not characteristic of the earlier period; the United

States was no longer on the defensive. At the same time came a portentous change in the international affairs of the transatlantic states, which were already beginning to take tentative positions in anticipation of the World War. Here in the western world was a new and unmeasured force to be reckoned with; the United States became a World Power because her potential influence was recognized, sought, and feared around the entire world.

The region in which the larger influence of the United States was first noticed was the Far East. The "open door" notes and the prominence of the American Government in the liquidation of the Boxer uprising were remarkable demonstrations by a government which not long before had been accustomed to declare that its interests were exclusively confined to the western hemisphere. The corollary of the Monroe Doctrine had broken down as far as the Orient was concerned. But American policy remained true to type: the United States was anxious to keep out of all political combinations in the Far East and to support native sovereignties; she had an economic purpose in that she saw in the markets of Asia potential opportunities for trade. It was repugnant to the spirit of American foreign policy to tolerate monopolies which must of necessity narrow the sphere of American economic liberty; hence our protests against the establishment of economic privileges of an exclusive character by means of political or military pressure.

The next great stroke of American diplomacy was the acquisition of the rights for an isthmian canal, to be constructed, operated, and protected exclusively by the United States. We may regard this as a stroke of diplomacy, crude as was the precipitate recognition of the Panama Government, because, before the canal rights could be secured, the United States had to come to a general agreement with Great Britain as to the balance of power in the Caribbean. The management of the Spanish-American War, the negotiation of the Hay-Pauncefote treaty, the demand upon Germany that she arbitrate her Venezuelan claims, the reduction of British naval forces in the West Indies—all these events constituted the working out of a definite American policy of national defense in the Caribbean. Their success measured the respect of

the transatlantic Powers and increased American prestige in world affairs.

Came the Russo-Japanese War. With Russia and France linked together on one side, with England and Japan linked on the other, with Germany fishing in troubled waters, with China unable to defend Manchuria, there was a clear possibility of world-wide war. Theodore Roosevelt stepped forward and used his position as chief executive of this new World Power. Those were dramatic days when one man, indifferent to precise constitutional limitations, determined the destinies of the world. That he used his power in favor of peace was in accord with the best American traditions; in becoming the peace-maker between Russia and Japan he asked for no specific compensation in political advantage (save that of preserving the balance of power in the Pacific) or commercial concession.

In 1914 the United States which prided herself on her policy of isolation and above all else feared compromising relationships was face to face with European Powers not only in the Caribbean and in Spanish American countries but also in the Near and Far East. The policy of no alliances had survived but isolation had become a myth. In our efforts to preserve our security and in our new contest for markets, present and future, we could no longer face the Powers alone, could no longer depend on that practice of weak states, the playing off of one state against another. The American Government was rapidly reaching a point where it must join forces, tacitly if not openly, with such other Powers as had interests most similar to its own to oppose other states which threatened its prosperity. It had already opposed Russia in the Far East by threatening to support Japan; it had opposed Germany at the Algeciras Conference and ranged itself momentarily on the side of the Entente. It had reached a tacit agreement with Great Britain in the Caribbean. The reality of the old traditions was weakening, though the formulas were still repeated. In becoming a World Power the United States had already assumed some of the burdens incident to membership in the society of nations.

THUS, since the Napoleonic era, and while the British fleet was holding a veto against the hegemony of any European nation, this new Power has developed in the West, a Power based on economic resources of unparalleled magnitude. It is obvious that the industrial preponderance which was once England's and which gave her the capacity to build the largest and strongest navy in the world has been broken by the United States. Heretofore, problems of power have engaged the attention of the American people but little, because Europe was remote and strange and because in the western hemisphere they need take no account of "balance," their strength exceeding that of all the other American peoples combined. But all profound European political conditions, every change in the *status quo*, affect the United States nowadays, and must be taken into account by those in charge of her foreign relations. Though not self-supplied in her requirements of raw materials, being an importer of such essentials as rubber, silk, and vegetable oils for her industry, and of sugar, coffee, furs, and art works for her "creature comforts," she need fear no rivalry in the push for prosperity. Her economic strength is greater than that of any nation, perhaps of any two; if present processes continue, her citizens will before long possess nearly five times the wealth of England. Such wealth has an influence that can affect the industrial and thereby the social development of most countries of the world. It can also be transmuted into military and naval expression.

The area for the exercise of that power is changing. Prior to and during the Middle Ages the area of conflict was thalassic, in the Mediterranean and later in the Baltic. The age of discoveries opened the oceanic rivalries in the Atlantic and the Eastern seas, and here the continental Powers fought for supremacy, with Great Britain trying to maintain an equilibrium. The westward progress of the restless, colonizing, inventive white races now carries the stage to the shores washed by the Pacific Ocean.

"The future lies in the Pacific!" This does not mean that culture or commerce or power will be centered there, but that the Pacific area holds major problems, huge in scale and new in the sense that

they are in the early stages of solution or evolution. The European world is organized and developed in the relation of one part to the others; its hope of peace lies in its continuous intellectual and stylistic integration. Old as it is, the Pacific area is in process of receiving a new form of development, and this has brought Seward's prophecy into general quotation:

> Torrents of emigration are pouring into California and Australia from the South American states, from Europe, and from Asia. This movement is one for which men and nature have been preparing through near four hundred years. During all this time merchants and princes have been seeking how they could reach cheaply and expeditiously "Cathay," China, the East, that intercourse and commerce might be established between its ancient nations and the newer ones of the west and the reunion of the two civilizations, which, having parted on the plains of Asia four thousand years ago, and having travelled ever afterward in opposite directions around the world, now meet again on the coasts and islands of the Pacific Ocean. Who does not see, then, that every year hereafter, European commerce, European politics, European thoughts, and European activity, although actually gaining greater force—and European connection, although actually becoming more intimate—will, nevertheless, relatively sink in importance; while the Pacific Ocean, its shores, its islands, and the vast regions beyond, will become the chief theatre of events in the world's great hereafter?[3]

The struggle in the East on a large scale is a new thing to Americans, but not to Europeans. To them it has been one of the elements in the contest for predominance since the sixteenth century, when Albuquerque overthrew Arab sea-power and won control of the Indian Ocean for Portugal, through the Franco-British strife in India, the contentions between the Dutch and the East India Company, until the dawn of the twentieth century, when the imperial rivalries of Great Britain and Russia were interlocked on so grand a scale as to dictate events over practically all of Asia. These were the epic struggles which caused Lord Acton to question whether the discovery of the sea route to the East was not more important than the discovery of America.

[3] Seward, *Works*, I, 248.

HOW WE IMPINGE ON THE WORLD

Like Great Britain, we have reached the point of rapid city growth and a relatively diminishing agricultural population. In colonial possessions, in the relations of an advanced country to countries less "civilized" or backward, in the export of capital for foreign investment and in the competition for raw materials and foreign markets, we have moved toward the English situation. While our problems may be different in detail, they involve us in the study and settlement of questions often similar to those of Great Britain. Panama has many resemblances to Suez, and our relation to Panama is in many respects analogous to that of Great Britain to Egypt. It was constantly on the tongues of the Englishmen at the Peace Conference that many of our new problems in the Philippines resembled their own in Egypt and the Far East. The wide geographical distribution of our territorial problems—Liberia to the Philippines, Alaska to Panama—puts us at last in the same general situation that Great Britain has long occupied; that is, we impinge upon most of the major problems of the world.

Our economic contacts are much more numerous and continuous than our purely political contacts. The local manager of an American oil company has differences with the Mexican authorities over taxes or requisitions by the army, and complains to the local consul, or even to the Ambassador, who appeals to the Department of State if he cannot himself adjust the difference; or the president of the company, apprehending confiscation of subsoil ownership under the new Mexican constitution and the relevant legislation, calls on the Secretary of State in Washington to protest to the Mexican Minister for Foreign Affairs. Or Mr. Secretary, again on behalf of American oil interests, interposes in the parceling out of the output of the Mosul field and secures a share for American capitalists. Or Nicaragua, many of whose bonds are held by Americans, asks the State Department to assist her in placing a new or a refunding loan to stabilize her currency and to enable her to improve her organization; the State Department solicits the help of bankers and, once they are in, feels under obligation to see that they have reasonable treatment.

Diplomatic protection of American economic interests all over

the world in their expanded volume is a new thing in our foreign relations, requiring a personnel capable of understanding business and finance, a new technique, a far more acute sense of the intricacy and delicacy of such relationships than was required in the early days of comparative isolation. Once the missionary in China made the predominant American interest there; once the United States was in a state of high excitement over the status of the Hungarian refugee Koszta; even as late as 1904 Roosevelt sought to galvanize a Republican presidential convention with the shout—"Perdicaris alive, or Raisuli dead!" But these are no longer the dominant *leitmotifs;* the modern interest is the economic interest.

Another factor in foreign relations making for complexity is the increasing consciousness that political decisions, even those seemingly domestic, have repercussions outside of the boundaries of the countries which make them. In the political world, as in the physical one, it would seem that force is never lost. The question of national armament has always been regarded by Americans as a domestic one, but they are fast coming to the realization that it is so concerned with other national armaments as to necessitate international conferences in order to clarify and in some respects to regulate it. *A fortiori* must we take account of the effect on other countries of those measures directly affecting our relations with them: the tariff, immigration, the export of capital, the subsidy of the merchant marine and so on. These all invite reprisals or counter-measures, which may be much more damaging to us than they would have been in the days of our comparative seclusion. Modern diplomacy in bargaining concessions for advantages must now embrace within its province questions formerly considered essentially domestic.

It is no longer an easy matter to draw a line between foreign and domestic questions. The "valorization" of Brazilian coffee has stimulated coffee-growing elsewhere, to the detriment of the Brazilian planter; the boll-weevil reduces the crop and raises the price of American cotton, and thereby stimulates cultivation in India and Egypt of cotton to which Lancashire spinners look for emancipation from the American quasi-monopoly. Nor is it easy to draw a

line between an economic consideration and a political consideration. The "Stevenson plan" of British rubber growers sets Mr. Firestone to planting young trees in Liberia with an investment of a million dollars; the enterprise will demand political protection if the Liberian Government should withdraw its countenance, and, if this were granted, a new stimulus would be given to those Americans who demand such protection in the Philippines, if not American control of the islands, before embarking on schemes of rubber exploitation. While the continuance of our control of the Philippines has hitherto rested almost wholly on political grounds, such economic factors have already begun to complicate the problem. The British raise the price of rubber by the "Stevenson plan." American tire manufacturers cast longing eyes upon the Philippines, where the soil and climate are favorable to rubber production and where cheap Chinese labor is available. Their aims are thwarted by the possibility that the Philippines may some day be independent, by the law of 1902 which fixes at 2,500 acres the maximum ownership of agricultural land by non-Filipinos, by the Jones Act which vests the control of all public lands in the Philippine legislature, and by the prohibition on the importation of Chinese labor. While the importance of this new economic factor may be easily exaggerated, and only a small part of our electorate has any knowledge of or interest in the rubber possibilities of the Philippines, the influence of an energetically interested group far exceeds its numbers. The influence of this group is already encroaching on the political considerations hitherto paramount in our relations with the Philippines because it chimes in with the demands of a national economy whose requirements of external rubber supplies are enormous and whose needs in other respects are fast outgrowing domestic resources. These circumstances may indeed condition our future political considerations.

Our economic forces enlarge the sphere in which operate the factors of strategy and prestige. The one was severely limited before we assumed territorial responsibilities outside of our domain and when the great goal of our economic achievement was the exploitation of domestic resources and the development of domestic commerce. The other is the product of accession to power. The

farther flung our commercial dealings, the more ramified our strategy and the more prestige we deem it necessary to acquire and to protect.

THE RESPONSIBILITIES OF POWER

We have suggested that our economic and industrial relationships have put the traditions of the seventeenth and eighteenth centuries into the melting-pot, making them as remote from reality as the proposal of Chevalier Bayard that gentlemen should abstain from the use of firearms in warfare. Thus we must seek new forms of security in correspondence with our new-found position. The British insure their national security by abating their sovereignty through agreements—the Covenant of the League, to be enforced by the League; the covenants of Locarno, to be enforced by self-interest and buttressed by "sanctions."

The development of this security through "sanctions," whether of habit or of covenant, is far more important than "disarmament." The utterances of President Wilson are the expression of a fervent hope that an evil may cease to exist in the form which has become familiar and painful to us. Has the search for security been sublimated in an appeal to a higher court than the "balance of power"? There are many factors to be considered, for the future holds forms of organization other than those proceeding on national lines—groupings of manufacturers in cartels, of bankers in consortiums, of capitalists in large-scale development schemes, of the labor groups in Internationales, and of labor and employer groups in the International Labor Office. In most situations at present the nationalistic grouping is still the prevailing association, and nations are still looking for friends to provide themselves against contingencies. And as nations they are still certain to compete for the materials of production and for trade as long as we possess the type of nationalism that rests on the doctrine of absolute sovereignty.

It is not unnatural that we should hesitate as to where lies our most advantageous position in this new apportionment of power. Our position in the western hemisphere has been one of absolute supremacy, absolute even if all the Latin American countries

should unite to oppose our policy, a union which their separate desires to win the favor of the United States have always helped to frustrate. We can call our acts those of a policeman, and pay no heed if others say they are those of a bully; we can do with impunity things that, done in Europe, would immediately cause a general war. This is our good fortune, but we are naturally perplexed and uneasy when we have to abandon this carefree habit of mind for the unaccustomed anxieties and responsibilities which our new position as a World Power is thrusting upon us.[4]

[4] We follow this general sketch with summaries of four cardinal traditions of American foreign policy in order to provide a background for a fuller discussion in the specific fields which they concern. "The Freedom of the Seas" is dealt with exhaustively in the section on "Limitation of Armament" in this volume; the "Monroe Doctrine" and the "Open Door" will come under examination in future volumes in reviews of our relations with Latin America and the Far East respectively.

CHAPTER TWO

TRADITIONS

ISOLATION

THE American attitude of aloofness embodies two distinguishable principles: (1) the doctrine that no state should intervene in the domestic affairs of other states, a general doctrine of international law for all nations; and (2) the doctrine of isolation, that the United States should abstain as completely as possible from taking part in European affairs or even from displaying an interest in them, avoiding not only alliances but also close relationships under engagement with any European nation. This latter doctrine (which, as Seward once said, might seem "straight, absolute, and peculiar" to other nations) when combined with its corollary, the Monroe Doctrine, produces the "doctrine of the two spheres." We consider here the doctrine of isolation.

A policy of non-intervention was natural for a weak young republic in a world of fierce and unscrupulous national ambitions which aimed at finding their colonial gratification in the hemisphere in which that young republic had just come into existence. Although the protection afforded by geographical remoteness was practically unique and for a long time remained unique, there have been and are other weak states which hope for permanent neutralization in a world dominated by great military Powers. Since Holland ceased to be a great naval Power, her foreign policy has aimed mainly at a sheltering neutrality, and that is now the chief aim of the Scandinavian countries. And Switzerland is in fact the subject of an international guarantee of neutrality dating from 1815, as was Belgium under the treaty of 1839.

Although Senator Lodge thought that he would make himself "the subject of derision by quoting from the Farewell Address," it would be squeamish not to set out that part of it which states the isolation principle. "Europe," said Washington, "has a set of primary interests which to us have none or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence, therefore,

it must be unwise in us to implicate ourselves by artificial ties in the ordinary vicissitudes of her politics or the ordinary combinations and collisions of her friendships or enmities." In his monumental style, Washington expressed the same thought as Baron de Nolken, the Swedish Ambassador at St. James's, fifteen years earlier: "Sir," said he to John Adams, "I take it for granted that you will have sense enough to see us in Europe cut each other's throats with a philosophical tranquillity." By the year 1797 the idea which has passed into popular history as a conception of Washington's had been developed out of the experiences of twenty years, had been applied to various classes of events in the international relations of the colonies or the nation, and had received substantially unanimous approval from public men and from the people.[1]

During the Revolutionary War Congress was fearful of any "alliance" except commercial reciprocity; and although the commissioners to France exceeded their instructions and signed the French alliance treaties of 1778, it was only because the desperate situation justified a desperate remedy. The cordiality toward France on account of her participation in the war was qualified in many quarters. In disregard of their instructions, the American envoys to the Paris peace conference with Great Britain made the provisional peace treaty of November 30, 1782, with England, and the United States at the conclusion of the war drew away to the extreme end of the commercial tether which binds all civilized countries together. When France and England went to war in 1793 the neutrality position of Washington and his cabinet pleased most of the American people.

In all of these events Washington and his contemporaries had had some part. They had put themselves on record on the subject again and again, and for every public expression of their views that remains to us there must have been hundreds of private exchanges and confirmations of those views. The doctrine of isolation was not only "in the air," it was the air itself.

[1] A full treatment of the subject in the revolutionary period, of which only a suggestion is here given, by Professor J. Fred Rippy and Miss Angie Debo, entitled *The Historical Background of the American Policy of Isolation,* appears in *Smith College Studies in History,* Vol. IX, Nos. 3 and 4.

John Adams was so consistently vehement in expounding the idea as to be its protagonist. In the thick of the Revolution he advocated "a principle of foreign affairs," which, near the end of his life, he said, "has been the invariable guide of my conduct in all situations, as ambassador in France, Holland, and England and as Vice-President and President of the United States, from that hour to this. The principle was that we should make no treaties of alliance with any European Power; that we should consent to none but treaties of commerce; that we should separate ourselves, as far as possible and as long as possible, from all European politics and wars." It is agreeable to read that in the discussion in Congress "I was remarkably cool, and, for me, unusually eloquent." He was on a committee of Congress to prepare a French treaty, and in the discussion in Congress "many motions were made to insert in it articles of entangling alliance." Adams favored peace with all the Powers of Europe as soon as the Revolution should be over, "and perfect neutrality in all their future wars." "Our business with them and theirs with us," he said, "is commerce, not politics, much less war." He had no enthusiasm for a close connection with our sister republic, France, and even confessed to the thought that "after a very few years it will be the best thing we can do to recall every minister from Europe, and send embassies only on special occasions."

Samuel Adams, though he favored the French alliance, almost hoped that the French would refuse it, and feared the "intrigues of foreign Ministers about our Court when Peace is happily settled," as well as "Factions in America, *foreign or domestick*."

Jefferson was almost as fervently a supporter of isolation as John Adams. "We should," he thought, "stand with respect to Europe precisely on the footing of China. We should thus avoid wars and all our citizens would be husbandmen." This would keep us out of Europe, "where the dignity of man is lost in arbitrary distinctions, where the human species is classed into several stages of degradation, where the many are crushed under the weight of the few, where the order established can present to the contemplation of a thinking being no other picture than that of God Almighty and his angels tramping under foot the hosts of the

damned." "We ought, like the Turks," he said more soberly, "to keep out of European affairs, but not like the Turks to be ignorant of them."

Richard Henry Lee had been one of those who in 1776 "panted after this connection with France," but his was a martial enthusiasm; with the coming of peace he cooled off, and in 1785 he desired that we might "be detached from European politics and European vices," and from those "European councils where artful and refined plausibility is forever called in to aid the most pernicious designs." Even Lafayette was clear that a policy of neutrality was best for his adopted country.

Franklin was the only one of the early fathers who was not constantly an isolationist, and he knew that he was the exception that proved the rule. In 1776, although "commonly silent" according to John Adams, he concurred with the isolationists, and the next year said "with his usual apathy" that he was "not deceived by France." But he "shifted his sentiments as easily as the wind ever shifted"; Adams's views he called "the ravings of a certain mischievous madman," and during his long stay in Paris extended to France the same benevolence which he indulged toward the more personal charms of Madame Helvétius and Madame Brillon de Jouy.

Congress itself in 1783 resolved that "the true interests of the states require that they should be as little as possible entangled in the politics and controversies of European nations," and in congressional debates on various issues both sides used the idea of isolation as a premise to support their opposing arguments. It was even thought in Congress that the creation of the office of a Secretary for Foreign Affairs would destroy American isolation; it afforded "a means of attraction which it was prudent to guard against"; so instead of a Secretary for Foreign Affairs, like the rest of the world, we have a "Secretary of State," whose department was originally intended to embrace, in addition to whatever slender amount of foreign business there might be, the whole domestic administration with the exception of war and finance.

So deep did these ideas penetrate that they found their way into the Constitution. The President should be chosen by an electoral

college instead of by Congress because in the latter the great colonial Powers would intrigue for the election of "a man attached to their respective policies and interests." The length of citizenship required for eligibility to House and Senate was affected by the certainty that "persons having foreign attachments will be sent among us and insinuated into our councils, in order to be made instruments for their purposes." The two-thirds rule for the ratification of treaties, which so many writers regard as the bane of our foreign relations, was supported as making treaty making difficult and preventing the corruption of the Senate by foreign influence. Jefferson would have made the President ineligible for reëlection for fear of European intrigue: "a Galloman or an Angloman will be supported by the nation he befriends." But John Adams thought eligibility for reëlection would have the contrary result by making the incumbent anxious for popular favor. We owe to the apprehensions of the isolationist period Article I, Section 9 of the Constitution, which "dates," as they say of fashions:

> And no Person holding any Office of Profit or Trust under them [the United States] shall, without the Consent of the Congress, accept of any Present, Emolument, Office, or Title, of any kind whatever, from any King, Prince, or foreign State.

A tradition established with such a single and so emphatic a voice by the early fathers had for the populace the force of thunder from Sinai. They could not have imagined that any change in circumstances would ever make it obsolete, and succeeding generations faithfully held to the tradition as masses of people do to any dogma which has at some time in their history made conspicuously for the tribal welfare.

There was a seeming inconsistency between the Jay treaty and the French treaties of 1778 which led to the painful charge that Washington was repudiating an obligation of honor. Washington agreed with Jefferson that the French treaties were binding on the United States even after the change in the form of the French Government, but he thought that the achievement of the purpose for which the alliance with France had been contracted (the strug-

gle for the independence of the United States) justified the attitude that it was made for defensive purposes only, and did not apply to the new French war with Great Britain, which he considered offensive on account of the accompanying French proclamation of revolutionary ideas applicable to all peoples.

It is significant that the instructions to Monroe at Paris said nothing about a commercial treaty between Great Britain and the United States; these instructions concluded "that, in case of war with any nation on earth, we shall consider France as our first and natural ally." When the French Directory learned of the Jay treaty, they issued a decree on July 2, 1796, to the effect that French cruisers would apply to neutral vessels the same rules that their governments permitted the English to enforce. The effort to reëstablish diplomatic intercourse led to the "XYZ" scandal, and in turn to a formal abrogation by Congress of the French treaty, the organization of a tiny army, and the naval war with France.

Here was political material of the gravest character. "The vital question," as Professor Latané says, "was not our duty to the rest of the world but whether the rest of the world would let us live." There was also a personal experience such as always gives an edge to a general principle. Washington had a strong affection for Lafayette, and Lafayette had become the subject of a possible international complication. Quitting his army in 1792 when the Jacobins proscribed him, Lafayette was on his way through Belgium to take ship for America. The Austrians captured him and kept him prisoner for five years. Curiously enough, Lafayette was an American citizen,[2] and he appealed to Washington to demand his release. Washington did not wish to "jeopardize the interests of the United States by intermeddling with European concerns" on Lafayette's behalf, but asked his release as a favor to Washington as a private citizen. The request was refused. "Lafayette's case was in Washington's mind as he formulated the principles of the Farewell Address. He was writing Hamilton about the boy George

[2] How he became an American citizen is described by Bemis in the *Yale Review*, Vol. 16, p. 316; it came about through his being a citizen of Maryland and Virginia, title and all, "himself and his heirs male forever."

(Lafayette's son) at the same time that he was working over with the adviser the text of that famous document."[3]

Here were two personal causes of pain: a charge of "infidelity to existing engagements," and a rebuff when he tried to help a friend. It was his duty to warn the youthful nation against such entanglements in the future.

Jefferson in his first Inaugural in 1801 used the phrase, "Peace, commerce and honest friendship with all nations, *entangling alliances* with none." When his opinion was consulted by President Monroe in 1823, he said it was "fundamental for the United States never to take an active part in the quarrels of Europe," for "their political interests are entirely distinct from ours; their mutual jealousies, their balance of power, their complicated alliances, their forms and principles of government, are all foreign to us."

The Monroe Message to Congress of 1823 containing the Monroe Doctrine struck the same note. John Quincy Adams thought it so important that the United States should not join with Great Britain, even in a guarantee of the independence of the Spanish American colonies, that his view prevailed against that of Jefferson and Madison, who favored a joint declaration by England and the United States.

Through Secretary Everett in 1852 we declined to join Great Britain and France in guaranteeing Cuba to Spain, for one reason because of our "aversion to political alliances with European Powers." As in 1823, our aloofness thus went so far as to refuse coöperation with European nations even in the pursuit of an object which coincided with our own desire. So in 1886 Secretary Bayard would not join in the presentation of claims in common with other countries for injuries to the nationals of each of these countries under similar circumstances, nor would Mr. Root in 1906 act to prevent the persecution of Armenians by the Turkish Government because, he said,

> By the unwritten law of more than a century, we are debarred from sharing the political aims, interests, or responsibilities of Europe, just as by the equally potential doctrine, now nearly a cen-

[3] *Yale Review,* Vol. 16, p. 334.

tury old, the European Powers are excluded from sharing or interfering in the political concerns of the sovereign states of the western hemisphere.

The Clayton-Bulwer Treaty of 1850, binding both parties not to "obtain or maintain" any exclusive control of the proposed isthmian canal, or unequal advantage in its use, has been criticized by John W. Foster, one of our most important writers on American foreign policy, as an unsound international agreement, and a treaty arranged by Secretary Frelinghuysen in 1884 providing for the protection and integrity of the territory of Nicaragua by the United States was withdrawn from the Senate by President Cleveland as contrary to "a line of precedents from Washington's day, which proscribes entangling alliances with foreign states."

But there have been contrary voices which treat Washington's policy as conditioned by the circumstances of his time. Secretary Seward wrote to the United States Minister to Costa Rica in 1862,

> It may well be said that Washington did not enjoin it upon us as a perpetual policy. On the contrary, he inculcated it as the policy to be pursued until the union of the States, which is only another form of expressing the idea of the integrity of the nation, should be established, its resources should be developed and its strength, adequate to the chances of national life, should be matured and perfected.

Even Jefferson, notwithstanding his general principle, would in his famous phrase have "married us to the British fleet and nation," and Secretary Fish in 1875, notwithstanding Everett's earlier refusal to join Great Britain and France in guaranteeing Cuba to Spain, proposed a joint intervention of the United States and the leading European Powers for the restoration of peace between Spain and the Cuban revolutionists.

The United States, in spite of harsh criticism in the House of Representatives, was officially represented at the Berlin Conference of 1884-5, which was called to deal with conditions in the Congo Basin in Africa, though again Cleveland, when he came into office in March, 1885, would not allow the consideration of the resulting treaty by the Senate. In 1885 the United States even went so far as to request that Great Britain and France join the

United States in urging Italy and Colombia to submit a dispute to the arbitration of the King of Spain.

A clear departure from the tradition seems to have taken place when the United States with Great Britain and Germany established a joint protectorate over the Samoan Islands. This incurred the animadversions of Cleveland when he took office for the second time, and of his Secretary of State, Mr. Gresham. Cleveland in fact was a logical isolationist and Monroe doctrinaire.

In 1880 we went even further, being represented at the Madrid Conference, which was called to deal with the difficult situation that existed in Morocco, and ratifying the subsequent convention. Participation in this Moroccan affair led to our similar representation in Roosevelt's time at the 1906 conference at Algeciras, when one of the periodical states of tension between France and Germany had been created. Senator Lodge, on January 24, 1906, made the official speech in the Senate defending the administration for its participation in the Algeciras Conference, and in the course of it recognized that Washington was "altogether too sensible and too practical a man to suppose that because we were not to engage in alliances which might involve us in the wars of Europe with which we had no concern, therefore we were never to engage in any agreements with any of the nations of Europe, no matter how beneficial to the world at large or to ourselves."

From the foregoing it would seem that in the main the effort of our statesmen has been to keep the United States free from engagements of a political character with European countries which might require us at a later date to take collaborative action. As to Latin America, we have consistently refused to join with European states for the purpose of ending war or of preventing its outbreak. It has been thought that the isolation doctrine should forbid political undertakings with the Latin American nations, and a committee of Congress in 1825 expressed this opinion, but President Adams said that he had considered the policy of the Farewell Address in this connection, and thought the United States ought to take part in the proposed Pan American conference, questioning whether if Washington had been alive in 1825 his counsel

would have been the same in view of the change in "the situation and the circumstances of the time."

A more serious erosion of the non-intervention doctrine happened when the competition for Asiatic trade made it impossible for us to add to our prosperity and at the same time to remain isolated. It was decided, without any doctrinaire inhibitions, that the non-intervention doctrine did not prevent us from pressing our trade in Asia, and, eventually, from acquiring islands in the Pacific.

Even as early as 1864 the United States had joined Great Britain, France, and the Netherlands in chastising Japan for closing the Strait of Shimonoseki and in exacting an indemnity as reparation for the alleged injury.[4] We abandoned isolation completely as to the Philippines when we became responsible for them by the proclamation of the Spanish-American peace treaty on April 11, 1899, and we were not restrained by the doctrine from joining European Powers for the rescue of Americans in Peking during the Boxer disturbances and from acting with the same Powers in the protocol of 1901. We then waived the "tradition" *ad hoc*, and Roosevelt did the same in 1905 when he used his good offices to bring Japan and Russia together at Portsmouth for the making of peace, thus ending the war before either side should win a crushing victory which would have had the effect of upsetting the balance of power in the Pacific. A man of Roosevelt's stamp was not likely to limit himself to the conventional prerogatives of the President in dealing with foreign questions and to leave to his Secretary of State the achievement of innovating policies to whose success he felt that his own boldness and vigor were indispensable. During this war he determined that no second European Power should join Russia in an attack on Japan, and informed Germany and France that in the event of a combination against Japan, he would go to "whatever length was necessary on her behalf." These enterprises in Asia we have begun to duplicate in other parts of the world.

[4] In 1883 the United States voluntarily returned the money received by way of indemnity.

It may be said that the "open door" policy is inconsistent with the basic theory of isolation, the doctrine that the United States confines her political activities or those activities which may have political consequences to the American continent. The World War, furthermore, brought every "entanglement" that could be imagined. Those who criticize our entry into the war are few; that entry only gave official recognition to an entanglement which already existed by the force of facts from which we could not escape. The best we could do was to refrain from military alliances or from the aims of conquest, and our official efforts were devoted to that end.

In October, 1916, President Wilson announced that we had no part in "the ambitions and the national purposes of other nations." In May of that year he said that he would free "the people of the world from those combinations in which they seek their own separate and private end and unite the people of the world to seek it on a basis of a common regard of justice." "There is no entangling alliance in a concert of power," he said in his address to the Senate of January 2, 1917.

Political expediency learns to discard a principle as inapplicable to the circumstances on one occasion and on another occasion to use it with full traditional effect without incurring the charge of inconsistency. Senator Lodge thus supported vigorously the Roosevelt policy of participation at the Algeciras Conference in 1906, saying:

> It is the policy of the United States to be at peace; but, more than that, the policy and interest of the United States alike demand the peace of the world, and it is not to be supposed for a moment that we are never to exert our great moral influence or to use our good offices for the maintenance of the world's peace. . . . Mr. President, the phrase "entangling alliances" does not mean that we should not unite with other nations on common questions, on the settlement of rights of commerce, as to the rights of our citizens in other countries, or in the promotion of those great and beneficent objects which are embodied in international conventions.

So also in May, 1916, to Mr. Taft, Mr. Lowell, and other important Republicans in the League to Enforce Peace, Lodge said:

> I do not believe that when Washington warned us against entangling alliances, he meant for one moment that we should not join with the other civilized nations of the world if a method could be found to diminish war and encourage peace.

But when in January, 1917, the Senator was called upon to declare himself on Wilson's peace policy, the phrases of Washington, Jefferson, and Monroe were furbished up again as statements "as clear as the unclouded sun at noonday" and "not reflections of double meaning words under which men can hide and say they mean anything or nothing"; and Lodge's later keynote speech in the Senate against the Covenant of the League was based on the importance of preserving the ancient doctrines intact.

As if to illustrate Wilson's argument that a general agreement for peaceful purposes is a disentangling alliance and not an entangling one, the United States was officially and energetically represented at The Hague Peace Conferences of 1899 and 1907, and the Senate in 1922 found little difficulty in ratifying the Four Power treaty which emerged from the Washington Conference and which contained an engagement on the part of the four Powers to "discuss fully and frankly the most efficient measures to be taken" in the event of "aggressive action" in the Pacific. But enough vitality remained in the old principle to induce President Harding to assure the Senate that "nothing in any of these treaties commits the United States or any other Power to any kind of alliance, entanglement or involvement," an assurance which was followed by senatorial reservations attached to the treaty disavowing any intention on the part of the United States to depart from the old doctrine of avoiding entangling alliances and participation in the affairs of other nations.

There is, of course, a field of international activity entry into which has never alarmed us. The United States was represented in 1863 in Paris at the International Postal Conference and at its successors, at the Paris Conference of 1878 for the regulation

of weights and measures, at the Paris Conference of 1884 on submarine cables, and at successive conferences for the same end, at the Brussels Conference in 1886 on the exchange of public documents, at one at Washington in 1888 and one at Brussels in 1905 for the purpose of preventing collisions at sea, at the conference of 1890 on the sale of liquor in Africa, at a group of conferences relating to international fisheries, patents, trademarks, copyrights, and sanitary conventions, at London in 1908-9 at the Conference for the Formulation of the Rules of Sea Law in time of War, at the Geneva Red Cross Conference in 1906, the Radio Telegraph Conferences of 1906 and 1912, the Spitzbergen Conference of 1914, and so on. Often we accompanied this international activity with conventional reservations, but other nations doubtless considered that we introduced them for our own comfort rather than for any bearing they may have had upon the engagements undertaken.

The fear of our young republic at being involved in situations serving ends other than our own individual interests has been slow to abate; the attitude is supposed to remain in full force in regard to the politics or territorial questions of Europe, which, like a gift of gloves, or a rose from a Borgia, are poisonous to American touch or smell. But our reverence of a tradition has had no claims upon the economic explorers, their engineers and financial backers, who are carrying American capital into the unexploited regions of the earth—the Americas, the Pacific islands, Asia, and African Liberia. They reck little of the doctrine of isolation or the "Doctrine of the Two Spheres"; they involve us in a competition with the economic expansionists of other countries; they clamor for protection and assistance when concessions are in danger or a rival receives the backing of his home government; and in their eyes the responsibility of a government to protect its nationals and their foreign investments abroad takes precedence over the non-intervention theory and over its corollary, the Monroe Doctrine. When an established political theory quits the field, it is usually because some new non-political force has created a set of facts in which the old theory cannot survive.

NOTE

Text of Reservation Made by American Delegates in Signing the Algeciras Treaty

Instructions from the Department of State

The Government of the United States, having no political interest in Morocco, and no desire or purpose having animated it to take part in this conference other than to secure for all peoples the widest equality of trade and privilege with Morocco and to facilitate the institution of reforms in that country tending to insure complete cordiality of intercourse without and stability of administration within for the common good, declares that, in acquiescing in the regulations and declarations of the conference, in becoming a signatory to the general act of Algeciras, and to the additional protocol, subject to ratification according to constitutional procedure, and in accepting the application of those regulations and declarations to American citizens and interests in Morocco, it does so without assuming obligation or responsibility for the enforcement thereof. (U. S. Department of State Publications, *Papers Relating to the Foreign Relations of the United States*, Vol. for 1906, Part 2, page 1627.)

THE MONROE DOCTRINE

Both the difficulty and the advantage, according to circumstances, of using the Monroe Doctrine as a basis of national policy lie in its diffuse character. In extent and intent, as Professor Hart says,[5] "the Monroe Doctrine was not a term but a treatise; not a statement but a literature; not an event but an historic development." "In spite of the criticism of their publicists," writes an English author about Olney's attitude in 1895,[6] "East and West joined in a paroxysm of enthusiasm for a doctrine of which a hundred conflicting explanations were on their lips."

The previous chapter has shown that the principle of abstention from politics in Europe would avail the young republic little if Europe could bring its politics into the western hemisphere. The danger of this saturated the political atmosphere, and all that was needed to produce its precipitation into dogma in the youth-

[5] Hart, *The Monroe Doctrine: An Interpretation*, p. 141.
[6] Reddaway, *The Monroe Doctrine*, p. 146.

ful nation was some European event foreshadowing an increase of European influence in the neighborhood of the United States. The country whose remoteness from others Jefferson wished to liken to that of China would no longer be remote if European complexities could penetrate its solitude; there must be, as he wrote to Short in 1820,[7]

> the advantages of a cordial fraternization among all the American nations, and the importance of their coalescing in an American system of politics, totally independent of and unconnected with that of Europe. The day is not distant when we may formally require a meridian of partition through the ocean which separates the two hemispheres, on the hither side of which no European gun shall ever be heard, nor an American on the other; and when, during the rage of the eternal wars of Europe, the lion and the lamb, within our regions, shall be drawn together in peace. . . . The principles of society there and here, then, are radically different, and I hope no American patriot will ever lose sight of the essential policy of interdicting in the seas and territories of both Americas the ferocious and sanguinary contests of Europe.

Statesmen had been saying this sort of thing much earlier. Hamilton wrote in the *Federalist*, "By a steady adherence to the Union, we may hope, ere long, to become the arbiter of Europe in America, and to be able to incline the balance of European competition in this part of the world as our interest may dictate." Jefferson said in 1808, "We shall be satisfied to see Cuba and Mexico remain in their present dependence; but very unwilling to see them in that of either France or England, politically or commercially. We consider their interests and ours the same, and the object of both must be to exclude European influence from this hemisphere." As to West Florida, Madison in 1811 said in a message to Congress, "the United States could not see, without serious inquietude, any part of a neighboring territory, in which they have, in different respects, so deep and so just a concern, pass from the hands of Spain into those of any other foreign Power."

These quotations show the natural wish of the United States to keep European quarrels from her hemisphere; but the way in

[7] Thomas, *One Hundred Years of the Monroe Doctrine*, p. 61.

which it should be elaborated into a systematic policy was not worked out in those early days, and a number of positions were taken up by the United States either inconsistent with the Monroe Doctrine as it came to be formulated or with each other. We made no objection, for example, to the transfer of Haiti by Spain to France in 1795; but we felt concerned about the proposed transfer of Louisiana in 1801, which involved the control of Mississippi navigation by a Power stronger than Spain, and, for the same reason, we should probably have objected to British conquest of Louisiana in an Anglo-French war or to Anglo-French acquisition of Cuba and Mexico. We made no protest when England took over the French West Indies from Napoleon, but we fomented revolt in Spanish territory contiguous to our own.

Another principle which led up to the formulation of the Monroe Doctrine was one which John Quincy Adams had insisted upon for a number of years before 1823, the principle of reserving to the United States for purposes of expansion the whole of the North American continent not already in British and Spanish occupancy. The world, he declared in a cabinet meeting of November, 1819, must be

> familiarized with the idea of considering our proper dominion to be the continent of North America. From the time when we became an independent people it was as much a law of nature that this should become our pretension as that the Mississippi should flow to the sea. Spain had possessions upon our southern and Great Britain upon our northern border. It was impossible that centuries should elapse without finding them annexed to the United States.[8]

This was a little too strong for direct statement to an Englishman, so Adams modified it in discussion with Stratford Canning in 1821. "And in this," said he (Canning), "you include our northern provinces on this continent?" "No," said I; "there the boundary is marked, and we have no disposition to encroach upon it. Keep what is yours, *but leave the rest of this continent to us.*"[9]

This ambition was pointed by a dispute with Russia over the Pacific coast, involving Great Britain also, in which the Russian

[8] Perkins, *The Monroe Doctrine 1823-1826*, p. 9.
[9] *Ibid.*, p. 10.

Government by a ukase of 1821 claimed jurisdiction as far south as the 51st parallel, jurisdiction carrying with it the right to colonize. It was the existence of this right which Adams wished strenuously to deny; he wished to make the North American continent "a special preserve of the United States, from which the rest of the world ought to be excluded," at least as far as concerned exploration and new settlement.

The dispute with Russia, which was carried on both at Washington and St. Petersburg, synchronized with the set of events which afforded the opening for the pronouncement of the Monroe Doctrine.

As early as 1818 Monroe had asked John Quincy Adams to approach Great Britain on the subject of joint recognition of the Spanish colonies, and the next year a proposal was made to the British Government for the recognition of Buenos Aires: "If it should suit the views of Great Britain to adopt similar measures at the same time and in concert with us, it will be highly satisfactory to the President." Great Britain was then friendly to Ferdinand VII of Spain. But in 1823 French determination to restore him to the throne from which a revolutionary movement had driven him caused British apprehension that France might lend her assistance to Spain in subjugating the revolted colonies or that France herself might take some of them over as pay for her service. According to Chateaubriand, the Spanish American settlements had by 1823 become, in respect of trade, a species of English colonies. The increase of reactionary activity in Europe on the part of the Holy Alliance increased the hostility toward it of Great Britain, and gave to the United States the assurance of British support in preventing French aggrandizement in the western hemisphere. Hence Canning conceived the idea of a joint declaration to prevent France from resuming her rivalry, and to keep the carrying trade.

Monroe himself, Jefferson and Madison whom he consulted, and most of the members of his own cabinet favored a joint declaration with England. John Quincy Adams, the Secretary of State, opposed joint action, not because that would have meant an horrendous entangling alliance, but mainly for a reason of specific

policy. England had disclaimed any intention of taking over any of the Spanish colonies and had attempted to obtain such a disclaimer from France. Adams feared she was going to ask such a disclaimer from the United States as one of the conditions of joint action. Later, Canning got his disclaimer from France—she desired neither annexation nor exclusive advantage of trade and even said she would not use force against the colonies. But before this happened, the American Government had committed itself to an independent declaration. We were, indeed, willing to collaborate with Great Britain to gain our end as to the Russian-Alaskan southern boundary, but while these negotiations were in progress the Monroe Doctrine was proclaimed in a presidential message dated December 2, 1823. Canning immediately drew off because he was unwilling to accept the principle that the Americas were no longer open to European colonization.

There were thus two *motives* for the declarations in the Message of December 2, 1823, relating to European activities in the American hemisphere: the assurance of room for expansion, mainly on the North American continent; and the fear for American safety if the European Powers, by colonization or by wars or by intrigue should increase their influence in the Americas and bring over their reactionary political and colonial systems. There was, certainly in Adams's mind, a third motive, that of the commercial interest; either European colonization or conquest would, if it created no other harm to the United States, exclude American trade from that part of the Americas colonized or reduced to subjection; Webster made an argument on these lines in the House in 1826.

As the two great *principles*, non-colonization and non-extension of the European "political system" to this continent (as Clay stated them in 1825) were crystallized by two distinct and separate sets of events, the one by the controversy with Russia, and the other by the activities of the reactionary Powers in the Holy Alliance, the two ideas are expressed in widely separated parts of the Message; but the two principles are harmonious and on account of their generality have often been used interchangeably or in combination to support a policy of the United States.

The parts of the Message expressing "the Monroe Doctrine" may be summarized as follows:[10]

(1) *Colonization* by the European Powers on the American hemisphere must cease.

(2) The United States will not interfere with the existing colonies of those Powers.

(3) Any attempt of the allied European Powers to extend their *political system* to the American hemisphere is dangerous to the peace and safety of the United States.

(4) In respect of the struggle between Spain and her revolted colonies, "it is still the policy of the United States to leave the Spanish colonies to themselves, in the hope that other Powers will pursue the same course."

There was also in the Message a reaffirmation of the policy of isolation; the United States would remain aloof from matters essentially European.

The Message was received in continental Europe with disfavor or dismay. Metternich said that "great calamities would be brought upon Europe by the establishment of these vast republics in the New World, in addition to the power of the United States, of whose views no man could entertain a doubt after reading the speech in question." In England it was received with favor by the Whigs and with dubiety by the Tories, especially the non-colonization point. In Latin America it was received with satisfaction, but without excitement; there was more gratitude to Great Britain for her refusal to join the Holy Alliance, probably because the United States announced the doctrine as a means of protecting her "peace and happiness" and "peace and safety," and not because of an altruistic interest in the Latin American republics.

The United States has never wavered in her support of the two major principles of the doctrine. The only serious effort to bring the European political system into this hemisphere was the French invasion of Mexico and the setting up of Maximilian's empire in 1863. Congress promptly resolved that:

[10] The parts of President Monroe's message to Congress of December 2, 1823, which comprise the Monroe Doctrine are contained in a note on page 58.

The Congress of the United States are unwilling by silence to have the nations of the world under the impression that they are indifferent spectators of the deplorable events now transpiring in the Republic of Mexico and that they think fit to declare that it does not accord with the policy of the United States to acknowledge any monarchical government erected on the ruins of any republican government in America under the auspices of any European Power.

The Civil War over, Seward stated to the French that the presence of the French army in Mexico was a cause "of serious concern to the people of the United States." When Maximilian obtained permission to raise recruits in Austria, Seward notified the American Minister at Vienna that the continuance of this would be accounted an act of war against the republic of Mexico, and that the United States could not undertake to remain neutral. Austrian troops were kept at home; the French forces embarked, leaving Maximilian to his fate.

Seward saw the French ousted from Mexico without mentioning the Monroe Doctrine. The doctrine, whose invocation had frequently caused irritation in Europe, was, as John Bigelow warned Seward, not an ingratiating argument to use at a time of ticklish foreign relations. Seward in this instance relied on the principle of national independence, and the right of any nation to intervene in behalf of any other which might be oppressed; but the effect of his action was to make national what had hitherto been primarily "democratic" doctrine.

The principle of non-colonization has a more extensive history. Colonization by the extension of boundaries was in question in 1881 when Secretary Evarts objected to the acquisition of territorial rights by Great Britain at the expense of Venezuela. A reconquest by the original sovereign came under the ban, once the Spanish colonies had stabilized their independence, for we protested against Spain's attempt or reported intention to attempt a reconquest of Mexico (1858), Santo Domingo (1861), Peru (1864), and part of Chile. In each case the attempt was abandoned, or we were informed there was no such intention; in the case of Santo Domingo, the Spanish gave it up in April, 1865, immediately after Appomattox.

Were voluntary transfers by the mother country disapproved? The answer seems to have depended upon the particular circumstances. The government was frequently on edge about Cuba. As early as 1817 a rumor was in circulation that Spain was about to transfer Cuba to England in payment of the expenses of the Peninsular campaign. Objections to the cession of the island, whether to Great Britain or to France, were expressed by Albert Gallatin, Everett, Van Buren, Forsythe, Webster, Upshur, Polk, Clayton, Marcy, and Fish. Seward even objected to a pledge of Cuban revenues by Spain to French capitalists, because that would interfere with the "constant gravitation" (Jefferson's phrase) which would ultimately bring Cuba to us. Besides the fear that a maritime Power would use the island as a naval base, the main reason for the objection, sometimes expressed and always existing, was the fear that the slaves in Cuba would be emancipated by Great Britain. Yet we made no objection to the retransfer of Guadaloupe by Sweden to France, nor to other similar transfers in the West Indies.

As to a cession by an American country itself, there is no saying whether Monroe thought of this or not; it is within the reasoning of the Message and bases of the doctrine. Polk in 1848 objected to the whites in Yucatan offering themselves to Great Britain or to Spain in consequence of their quarrel with the Indians. Clayton similarly objected to Costa Rica's request for British protection in a controversy with Nicaragua over territory south of the San Juan river; so did Marcy in 1852 to Great Britain's acquisition of the Bay Islands from Honduras, and Frelinghuysen in 1884 and Bayard in 1888 to the Haitian offer of Mole St. Nicholas or Tortuga Island to France. Senator Lodge in 1912 thought it wise to warn Japan and any other government away from the American continent by a resolution which the Senate adopted:

> Resolved: That when any harbor or other place in the American continents is so situated that the occupation thereof for naval or military purposes might threaten the communications or the safety of the United States, the government of the United States could not see without grave concern the possession of such harbor or other place

by any corporation or association which has such relation to another government, not American, as to give that government practical power of control for national purposes.

The protection from other vigorous Powers of a weak undeveloped people is sometimes only one step from absorption by the protector. We brought the Hawaiian (Sandwich) Islands into our sphere of influence by trading with them; actual annexation, entertained by Marcy in 1853-4 to prevent their falling under European domination, was put off until 1898, and then came as a consequence of the Spanish War and a Republican tariff.

Most of the situations which have involved the reassertion and application of the Monroe Doctrine have been episodic. The problem of an isthmian canal, on the contrary, has kept the doctrine steadily before the public mind; it was, of course, a problem which the original utterance of the Monroe Doctrine was not intended to cover. The contention over a canal route began in Polk's time; we could not, said Rives to Palmerston, "consent to see so important a communication fall under exclusive control of any other great commercial Power." The desire of the United States to force Great Britain out of Central America and the desire to prevent her from monopolizing a canal went together; they were opposed by the British for reasons of prestige and of unwillingness to allow the United States to secure a canal monopoly.

The result of the countervailing pressures was the Clayton-Bulwer treaty of 1850. This was an agreement of equality:

> neither the United States nor Great Britain would ever obtain or maintain any exclusive control over the canal, nor fortify it, nor erect any fortifications near it, nor colonize or assume or exercise any dominion over Nicaragua, Costa Rica, the Mosquito coast, or any part of Central America; and neither would take advantage of any intimacy, alliance or connection with the state through which the canal should pass to acquire for its citizens any advantage in commerce or navigation which should not be offered in the same terms to citizens of the other.

As the United States grew with the century the Monroe Doctrine proved inadequate as the sole prop of Latin American policy.

There appeared by its side a more specialized and localized doctrine which may be identified as the doctrine of "Paramount Interest."[11] The narrow equality of the Clayton-Bulwer treaty became in fact as intolerable as its enemies in the Senate in 1852 feared that it would be. After frequent representations to Great Britain, and after congressional proposals to acquire routes and to ignore the treaty of 1850, Hay and Pauncefote in 1900 drew up a new treaty. This the Senate refused to approve because it opened the canal in time of war to war and commercial vessels on terms of equality, because it forbade fortifications, and because it contained a clause inviting the adherence of other nations. It destroyed the doctrine of Paramount Interest by creating for European nations in this hemisphere political rights which had not previously existed.

Great Britain yielded, and the Hay-Pauncefote treaty of 1902 was signed and ratified. The only right of consequence secured to Great Britain is that contained in the first of the rules prescribed for adoption by the United States as the basis for the neutralization of the canal:

> The canal shall be free and open to the vessels of commerce and of war of all nations observing these Rules, on terms of entire equality, so that there shall be no discrimination against any such nation, or its citizens or subjects, in respect of the conditions or charges of traffic, or otherwise. Such conditions and charges of traffic shall be just and equitable.

For the rest, the treaty leaves it to the United States to guarantee the neutrality of the canal, and to fortify it if she likes, and there is no prohibition against the United States closing the canal to her enemy in time of war.

Then there is the matter of the forcible collection of claims by non-American countries against a defaulting American country. What relation has this question to the Monroe Doctrine? Revolutions, especially as frequent and long-continued as those of the

[11] The phrase was Evarts's—"the paramount interest of the United States in these projects of interoceanic communication across the American isthmus has seemed quite as indispensable to the European Powers as to the States of this continent."

Latin American countries, are ruinous to a country's finances, and the effort at economic recuperation by borrowing, complicated by the financial misdemeanors of many of the evanescent governments, has given rise to many claims of the nationals of the United States and of European countries against the Latin American republics. Jackson wished to demand payment of Mexico from the deck of a warship; France imposed a heavy debt on Haiti as the price of Haitian independence; Great Britain in 1858 forced payment out of Salvador by a port blockade.

It was in line with these precedents that Cass in 1859 made no objection to a proposed British expedition against Vera Cruz, nor did he later "call in question the right of France to compel the government of Mexico by force if necessary to do it justice." Seward in 1866 said that the United States had "no ambition to become a regulator," and Sherman in 1897 was explicit in his refusal to help Haiti against Germany when the latter sent warships to collect an indemnity for an injury to a German citizen. Roosevelt in 1901 said that under the Monroe Doctrine we do not "guarantee any state against punishment if it misconducts itself, provided the punishment does not take the form of the acquisition of territory by any non-American Power."[12] These precedents and others seem to warrant John Bassett Moore in saying that the Monroe Doctrine does not prevent forcible proceedings by European countries against Latin American states for the collection of claims.[13]

Yet it can be foreseen that this rule might open the western hemisphere to expeditions for debt collection or punishment, that blockade or occupation for the sake of pressure might continue indefinitely, that the influence of European countries in the American continent might become permanent if they were allowed to send naval expeditions against American republics. The dilemma is a difficult one. Sherman thought we should assume no responsibility for the acts of the protected state, having no ability to shape or control those acts. Roosevelt, enunciating his hands-off policy, de-

[12] Moore, John Bassett, *American Diplomacy; Its Spirit and Achievements*, p. 157.

[13] *Ibid.*, p. 159.

clared that he had compelled Germany by a threat of force to arbitrate her claims against Venezuela.[14]

There may be insistence upon arbitration, apart from the Monroe Doctrine, but Roosevelt in explicit language accepted for the United States the rôle of policeman in the western hemisphere. As to Cuba, the Platt amendment, by giving us power of intervention and protection, throws upon the United States the responsibility correlative of such power. The principles of the Platt amendment constitute a new declaration of Caribbean policy, to be clearly distinguished from the Monroe Doctrine; they are, in fact, an official definition of the doctrine of Paramount Interest in the Caribbean. Our entry into Santo Domingo and into Haiti, in both of which we still maintain an American "receivership," constitutes an adoption of this doctrine of responsibility in an extreme form.

As to the submission to European arbitrators of questions pending between American countries we have no settled policy. With regard to arbitration by the King of Spain between Costa Rica and Colombia, Frelinghuysen expressed a general dislike:

> This Government cannot but feel that the decision of American questions pertains to America itself, and it would hesitate, even when consulted [*sic*] by the most friendly motives (such as naturally join it to that of Spain) to set on record an approval of a resort to European administration.

And it is obvious that the Harding administration found it a pleasure to undertake the settlement of the Tacna-Arica dispute, which both Peru and Bolivia had sought to bring to the attention of the League of Nations. Yet the United States assented to European mediation in 1885 between Colombia and Italy, and made no objection in 1898 to arbitration by Queen Victoria of a boundary dispute between Argentina and Chile, the award being actually made by Edward VII as successor arbitrator. Indeed, some favor has been shown by the United States toward several such arbitrations by European jurists under The Hague Permanent Court of Arbitration; and the attempt of European countries to enforce claims against Venezuela by a pacific blockade was aban-

[14] Though satisfactory support for Roosevelt's declaration is wanting, it may be cited as indicating Roosevelt's view of sound policy.

doned in 1902 in exchange for a submission of all of the claims, those of the United States included, to European arbitrators selected by the Tsar of Russia.

The assertion of the Monroe Doctrine which is the liveliest in the minds of most persons happened in a controversy with Great Britain, in which the American protagonists were Cleveland and Olney, in consequence of Great Britain's unwillingness to arbitrate a boundary dispute with Venezuela which had intermittently caused friction since 1844. It is fairly clear that Americans in Monroe's time had never been alarmed over a boundary dispute in which one of the European colonies was involved, provided of course the position of the European state was taken in good faith and was not a cover for forcible expansion. The action of Cleveland and Olney is mainly regarded by historians as making new policy, although so philosophical an historian as Professor Latané supports the position taken by Cleveland and Olney. Among contemporary historians, James Ford Rhodes thought that Olney's contention had "the fatal defect of applying" the Monroe Doctrine to a mere boundary dispute between a European and an American Power. John Bassett Moore feared this use of the Monroe Doctrine would lead to "our participation in numberless quarrels"; a doctrine intended to keep the peace in this hemisphere might become a cause of frequent war and thus the whirligig of time would bring in his revenges. But popular opinion then and since has supported Cleveland's stand on the basis of nationalistic self-assertiveness and without analysis or historical examination.

What the statesmen said was another matter. Cleveland himself called Olney's note of July 20, 1895, "Olney's twenty-inch gun," and Olney's phrase, "Today the United States is practically sovereign on this continent, and its fiat is law upon the subjects to which it confines its interposition," continues to sound both ominous and bombastic in Latin American ears. The arguments he addressed to the British of the superiority of our social and political system may have sounded well to American chauvinists, but they seemed offensive and naïve to the British.

Any permanent political union between a European and American state [is] unnatural and inexpedient. . . . Thus far we have been

spared the burdens and evils of immense standing armies and all the other accessories of huge warlike establishments; and the exemption has highly contributed to our national greatness and wealth as well as to the happiness of every citizen. But with the Powers of Europe permanently encamped on American soil, the ideal conditions we have thus far enjoyed cannot be expected to continue.

This was an innovation in diplomacy—the treatment of a theory of destiny as a factor in international relations. It was an expansion of a thought of John Quincy Adams, who, as has been said, as early as 1819 had maintained that the world was to be familiarized with the idea of considering our dominion to be the continent of North America. He held that the inevitability of the union would soon be so obvious to the world as to invite instant charges of hypocrisy if we tried to be jesuitical in its achievement.

Two efforts to expand the Monroe Doctrine seem extravagant today, even to American chauvinists. They illustrate the danger inherent in a popular sentimental attachment to a vague dogma, an attachment that may at any time develop into a national hysteria. Calhoun in 1844 protested to the British Government against their advising the Texas Republic to emancipate her slaves. His language was:

> So long as Great Britain confined her policy to the abolition of slavery in her own possessions and colonies, no other country has a right to complain. . . . But when she goes beyond, and avows it as her settled policy, and the object of her constant exertions, to abolish it throughout the world, she makes it the duty of all other countries, whose safety or prosperity may be endangered by her policy, to adopt such measures as they may deem necessary for their protection.[15]

The House of Representatives in 1867 protested against the British North American Act which united Canada, Nova Scotia, and New Brunswick into a single dominion. The House declared that a measure for a neighbor's better government would constitute an increase of monarchical power on our frontiers and there-

[15] Hart, *op. cit.*, p. 109.

fore would be in contravention of the traditional principles of the United States.

Attempts have frequently been made to base upon the Monroe Doctrine other policies so little related to it as to receive from Professor Hart the title of "Monrovoid Doctrines." These began with Polk. Whatever one may think of them, certainly Monroe, at whose door they were laid, would never have accepted their paternity. In 1846 Polk forcibly annexed New Mexico and California, and in 1848 he proposed to annex Yucatan because the whites there were in continual quarrel with the Indians. In 1845 on the Oregon boundary question he objected to any cession of territory, however made, to any European state; an acquisition of "dominion" was as obnoxious to him as the colonization denounced by Monroe. Polk proposed to Spain in 1848 to buy Cuba for $100,000,000, mainly to extinguish the possibility of the abolition of slavery there, a possibility which like the earlier possibility of emancipation in Texas occasioned great concern to the slaveholding classes in the United States. This asserted right to intrude upon a neighbor's territory was based upon what was called the "neighbor's burning house" argument.

Roosevelt's important views on the doctrine, which were the basis of his policy, may be roughly summarized as follows:

1. The Monroe Doctrine is a cardinal interest of the United States; it is needed for the protection of the approaches to the Panama Canal and of our interests in the Caribbean Sea. [This illustrates the frequent confusion between the Canal or the Caribbean policy and the strict Monroe Doctrine.]

2. We ought not to interpose in the American nations unless their "inability or unwillingness to do justice at home or abroad had violated the rights of the United States or had invited foreign aggression to the detriment of the entire body of American nations."

3. "Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the western hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power."

4. "We do not guarantee any state against punishment if it misconducts itself, provided that punishment does not take the form of the acquisition of territory by any non-American Power."

5. "On the one hand, this country would certainly decline to go to war to prevent a foreign government from collecting a just debt; on the other hand, it is very inadvisable to permit any foreign Power to take possession, even temporarily, of the custom-houses of an American Republic in order to enforce the payment of its obligations, for such temporary occupation might turn into a permanent occupation. The only escape from these alternatives may at any time be that we must ourselves undertake to bring about some arrangement by which so much as possible of a just obligation shall be paid."[16]

Statesmen and publicists in the Latin American states are constantly discussing the various meanings of the Monroe Doctrine and the relation to their own fortunes of United States action under it. Argentina, Brazil, and Chile would, of course, like the doctrine to have an authoritative interpretation in line with that of John Quincy Adams of 1825, which was in substance that each American republic would "maintain the principle in application to its own territory, and permit no lodgements of foreign power on its own soil." When Colombian independence was threatened by France, Adams would not agree to go to her aid if force was to be exerted from Europe. Congress was equally prudent and would take no step in behalf of any states in conflict with Spain.

It was the view of Diaz that the Monroe Doctrine should be made an "American" doctrine. It was in conformity with a general Latin American demand that Calvo and Drago formulated their own doctrines to the effect that "the public debt can not occasion armed intervention, nor even the actual occupation of the territory of American nations by a European Power"; and that no Power shall have the right to require an indemnity on account of injury to its nationals from another Power unless it can show that the injury was occasioned by the public authorities or in consequence of their delinquency.

Dr. Baltasar Brum, President of Uruguay, presented the Brum doctrine as a formulation of this Latin American attitude:

[16] Hart, *op. cit.*, p. 225 *et seq.*

It is based on equality of responsibility of all American republics for enforcing the Monroe Doctrine. Under it each American republic would agree to defend any of its members against foreign aggression and insure the territorial integrity of each American republic. It could best be carried out by the formation of a Pan American League, to which every American republic would subscribe and which would place all of them on an equal and reciprocal basis in the matter of the enforcement of the above principles of protection.[17]

President Wilson put forward a view of Pan American relations as if it were an interpretation of the Monroe Doctrine; it is in fact not an expression of the Monroe Doctrine, but a sort of Locarno arrangement for the American hemisphere. In his own language it was as follows:

If America is to come into her own, into her legitimate own, in a world of peace and order, she must establish the foundations of amity, so that no one will hereafter doubt them.

I hope and believe that this can be accomplished. These conferences have enabled me to foresee how it will be accomplished. It will be accomplished, in the first place, by the states of America uniting in guaranteeing to each other absolute political independence and territorial integrity. In the second place, and as a necessary corollary to that, guaranteeing the agreement to settle all pending boundary disputes as soon as possible, and by amicable process; by agreeing that all disputes among themselves, should they unhappily arise, will be handled by patient, impartial investigation and settled by arbitration; and the agreement necessary to the peace of the Americas, that no state of either continent will permit revolutionary expeditions against another state to be fitted out on its territory, and that they will prohibit the exportations of munitions of war for the purpose of supplying revolutionists against neighboring governments.[18]

In two other speeches he said:

Let us all have a common guarantee that all of us will sign a declaration of political independence and territorial integrity. Let us agree that if any of us, the United States included, violates the po-

[17] *New York Times*, Jan. 30, 1921.

[18] Address before the Second Pan-American Scientific Congress, December, 1915, Inman, *Problems in Pan Americanism*, pp. 186-7.

litical independence or territorial integrity of any of the others, all the others will jump on her.

Now, that is the kind of government that will have to be the foundation of the future life of the nations of the world. The whole family of nations will have to guarantee to each nation that no nation shall violate its political independence or territorial integrity. That is the basis—the only conceivable basis—for the future peace of the world, and I must admit that I was anxious to have the states of the two continents of America show the way to the rest of the world as to how to make it a basis for peace.[19]

The description of the Monroe Doctrine which Wilson incorporated in the Covenant of the League of Nations—"a regional understanding"—corresponds to these views. To say the least, it does not seem to be historically sound, and it was at best vague. Whether from the historical point of view or from that of the hegemony of the United States, it met with prompt and vigorous criticism from various sections of opinion in the United States. In order that it might be better understood by the other states which were asked to bind themselves to its acceptance, ex-President Bonilla of Honduras, who represented his country at the conference at Versailles, offered a clause of definition of the Monroe Doctrine as follows:

This doctrine, that the United States of America have maintained since the year 1823, when it was proclaimed by President Monroe, signifies that: All the republics of America have a right to independent existence; that no nation may acquire by conquest any part of the territory of any of these nations, nor interfere with its internal government or administration, nor do any other act to impair its autonomy or to wound its national dignity. It is not to hinder the "Latin" American countries from confederating or in other forms uniting themselves, seeking the best way to realize their destiny.[20]

What, then, is the Monroe Doctrine? The reader will find difficulty in giving a non-tendencious answer. There is a clear conflict between the historically-minded and those who, indifferent to historical origins, look for a phrase that will give viability to a set

[19] *New York Times*, April 12, 1919.
[20] Inman, *op. cit.*, p. 183.

of national policies of diverse nature. Monroe's cabinet, for example, had expressly declined to help Cuba against Spain; yet in 1898 many Americans believed that it was specifically the Monroe Doctrine, and not the general interest against oppression or a special interest in the Caribbean, which justified the United States in fighting Spain to give Cuba independence. The Monroe Doctrine does not, as was said by persons who objected to our participation in the Berlin conference of 1884 on African questions, inhibit us from activity in European affairs; the conventional objection rests on the tradition of isolation. Aggression or annexation by the United States, the very things that Monroe deprecated in his Message, have been based upon the doctrine—such is the tendency of the human mind to rest a desire on an article of faith.

Is there any harm in using a term in statecraft so loosely? It is often argued that the term may properly be used to cover those policies of the United States in the western hemisphere which have no relation to the principles on which Monroe and all but one of his cabinet agreed in 1823 on the ground of Humpty Dumpty's principle that "when I use a word, it means just what I choose it to mean, neither more nor less." There are at least two sufficient grounds of objection to such imprecise usage.

First, the Monroe Doctrine applies to the whole of the American hemisphere. It cannot mean one thing in the Caribbean and another in South America. If our actions in the Caribbean are supported by the Monroe Doctrine, we give the South American states cause for fear; but if we base them on Paramount Interest they imply no extension beyond the Caribbean. It is important to distinguish clearly between the principles of the Platt amendment with their limited application, and the Monroe Doctrine which for South America retains its pristine significance.

The second danger lies in the misunderstandings that may arise with other nations, if the term be used in treaties or international conventions which they are expected to be able to interpret at the peril of committing a breach of their obligation. What does the reservation attached to The Hague Court convention mean—a "traditional attitude toward purely American questions"? What would the Law Officers of the Crown say to the British Secretary

of State for Foreign Affairs if he should ask them at some critical juncture to interpret Article 21 of the Covenant, which speaks of "regional understandings like the Monroe Doctrine"? Would they say that Señor Bonilla's proposal at the Conference at Versailles was an interpretation of the Covenant, or an addition to it? In certain circumstances, it might be as vital for them to answer correctly as for a chemist to know the properties of trinitrotoluol.

They would get no help from this side of the water, except probably the statement that whatever position the United States was taking was justified by the doctrine. On December 14, 1919, Salvador addressed a communication to the United States asking the meaning of the Monroe Doctrine in Article 21 of the Covenant. A Democratic Secretary of State replied that the answer to the question was to be found in the speech[21] of President Wilson Pan Americanizing the doctrine. The reply was a clever way out of the difficulty, but it is to be observed that historians, Republican Presidents, Secretaries of State and Chairmen of the Committee on Foreign Relations, and many Democrats who are not "Wilsonian" would deny that the Monroe Doctrine can bear any such interpretation.

Of one thing we can be reasonably sure, and that is that the Monroe Doctrine is not a rule of international law. This is important, for a violation of international law is an attack not upon an interest but upon a right. Neither Adams nor Monroe, the coauthors of the doctrine, ever asserted for it a juridical character. As a policy it has all the dignity it needs. International lawyers will agree that Lord Salisbury in one of his two notes of November 26, 1895, accurately stated the relation of the doctrine to international law:

> It (the Monroe Doctrine) must always be mentioned with respect, on account of the distinguished statesman to whom it is due, and the great nations who have generally adopted it. But international law is founded on the general consent of nations; and no statesman, however eminent, and no nation, however powerful, are competent to insert into the code of international law a novel principle which was never recognized before, and which has not since been accepted by

[21] See p. 53.

the Government of any other country. The United States have a right, like any other nation, to interpose in any controversy by which their own interests are affected; and they are the judge whether those interests are touched, and in what measure they should be sustained. . . . Her Majesty's Government fully concur with the views which President Monroe apparently entertained that any disturbance of the existing territorial distribution in that hemisphere by any fresh acquisition on the part of any European State would be a highly inexpedient change. But they are not prepared to admit that the recognition of that expediency is clothed with the sanction which belongs to a doctrine of international law.[22]

Does the foregoing constitute in any way an argument that the United States should abandon any of the policies which are essential to her interests, her expansion in the Caribbean, her protection of the Canal, and so on? Clearly not. Those policies are based in the main on reasonable grounds and not on traditionalism, though they can invoke for their support the precedents and many of the evolving situations in which the Monroe Doctrine in its legitimate meaning has also been involved. Those policies, as worked out by Professor Hart,[23] may be summarized as follows:

1. The democratic form of government is the accepted principle of independent American states, and attempts from without to substitute a monarchical form are hostile to our interests.

2. The settled condition of the American continent allows no opportunity for foreign states to alter the map of America, or to build up colonies in the American hemisphere.

3. The United States has a permanent interest in preventing European nations from altering or controlling the status of the states of the American continent by conquest, by colonization or by acquiring naval stations or by intervening in behalf of private claimants, and accordingly undertakes to prevent certain causes of trouble between Latin American and European and Asiatic states.

4. The American Powers may combine or separate, and the United States is free to annex territory according to its judgment, as well as to establish protectorates over the islands and small land states nearest to us for the protection of the canal route or to safeguard

[22] Dennis, *Adventures in American Diplomacy*, pp. 29, 30.
[23] Hart, *op. cit.*, pp. 368-9.

American capital or to deprive European Powers of an excuse for intervention.

These were the views expressed by President Roosevelt in various forms; these were the policies used in the Venezuela difficulties of 1902-3, in the extrusion of Great Britain from joint construction and control of an isthmian canal, in the annexation of Porto Rico, and in the virtual annexation of the canal zone. Waiving the fourth of these policies and the questions of political and economic imperialism it raises, they were fully justified by the declaration in the British Parliament by Lord Salisbury that "it is no more unnatural that the United States should take an interest in such questions than that we (the British) should feel an interest in Holland and Belgium."[24]

NOTE: MONROE MESSAGE OF DECEMBER 2, 1823

At the proposal of the Russian Imperial Government, made through the minister of the Emperor residing here, a full power and instructions have been transmitted to the minister of the United States at St. Petersburg, to arrange, by amicable negotiation, the respective rights and interests of the two nations on the northwest coast of this continent. A similar proposal has been made by His Imperial Majesty to the Government of Great Britain, which has likewise been acceded to. The Government of the United States has been desirous, by this friendly proceeding, of manifesting the great value which they have invariably attached to the friendship of the Emperor, and their solicitude to cultivate the best understanding with his Government.

In the discussions to which this interest has given rise, and in the arrangements by which they may terminate, the occasion has been judged proper for asserting as a principle in which the rights and interests of the United States are involved, that the American continents, by the free and independent condition which they have assumed and maintain, are henceforth not to be considered as subjects for future colonization by any European powers.

* * * * *

It was stated at the commencement of the last session that a great

[24] Dennis, *op. cit.*, p. 41.

effort was then making in Spain and Portugal to improve the condition of the people of those countries, and that it appeared to be conducted with extraordinary moderation. It need scarcely be remarked that the result has been, so far, very different from what was then anticipated. Of events in that quarter of the globe with which we have so much intercourse, and from which we derive our origin, we have always been anxious and interested spectators. The citizens of the United States cherish sentiments the most friendly in favor of the liberty and happiness of their fellow men on that side of the Atlantic. In the wars of the European powers in matters relating to themselves we have never taken any part, nor does it comport with our policy to do so. It is only when our rights are invaded or seriously menaced that we resent injuries or make preparation for our defense.

With the movements in this hemisphere we are, of necessity, more immediately connected, and by causes which must be obvious to all enlightened and impartial observers. The political system of the allied powers is essentially different in this respect from that of America. This difference proceeds from that which exists in their respective Governments. And to the defense of our own, which has been achieved by the loss of so much blood and treasure, and maintained by the wisdom of their most enlightened citizens, and under which we have enjoyed unexampled felicity, this whole nation is devoted.

We owe it, therefore, to candor and to the amicable relations existing between the United States and those powers, to declare that we should consider any attempt on their part to extend their system to any portion of this hemisphere as dangerous to our peace and safety. With the existing colonies or dependencies of any European power we have not interfered and shall not interfere. But with the Governments who have declared their independence, and maintained it, and whose independence we have, on great consideration and on just principles, acknowledged, we could not view any interposition for the purpose of oppressing them, or controlling in any other manner their destiny, by any European power, in any other light than as the manifestation of an unfriendly disposition toward the United States.

In the war between these new Governments and Spain we declared our neutrality at the time of their recognition, and to this we have adhered and shall continue to adhere, provided no change shall occur which, in the judgment of the competent authorities of this Govern-

ment, shall make a corresponding change on the part of the United States indispensable to their security.

The late events in Spain and Portugal show that Europe is still unsettled. Of this important fact no stronger proof can be adduced than that the allied powers should have thought it proper, on any principle satisfactory to themselves, to have interposed, by force, in the internal concerns of Spain. To what extent such interposition may be carried, on the same principle, is a question in which all independent powers whose Governments differ from theirs are interested, even those most remote, and surely none more so than the United States.

Our policy in regard to Europe, which was adopted at an early stage of the wars which have so long agitated that quarter of the globe, nevertheless remains the same, which is, not to interfere in the internal concerns of any of its powers, to consider the Government *de facto* as the legitimate Government for us; to cultivate friendly relations with it, and to preserve those relations by a frank, firm, and manly policy, meeting, in all instances, the just claims of every power; submitting to injuries from none.

But in regard to these continents, circumstances are eminently and conspicuously different. It is impossible that the allied powers should extend their political system to any portion of either continent without endangering our peace and happiness; nor can any one believe that our Southern brethren, if left to themselves, would adopt it of their own accord. It is equally impossible, therefore, that we should behold such interposition, in any form, with indifference.

If we look to the comparative strength and resources of Spain and those new Governments, and their distance from each other, it must be obvious that she can never subdue them. It is still the true policy of the United States to leave the parties to themselves, in the hope that other powers will pursue the same course.

THE FREEDOM OF THE SEAS

Considered narrowly as a controversy between the United States and Great Britain the main features of the origin and development of maritime law can be summed up in two quotations. The Ambassador of the French Revolution, Citizen Genêt, complained "that the English take French goods out of American vessels,

which is," he said, "against the law of nations, and ought to be prevented by us." "On the contrary," Jefferson held,

> we suppose it to have been long an established principle of the law of nations, that the goods of a friend are free in an enemy's vessel, and an enemy's goods lawful prize in the vessel of a friend. The inconvenience of this principle . . . has induced several nations latterly to stipulate against it by treaty, and to substitute another in its stead that free bottoms shall make free goods. . . . As far as it has been introduced, it depends on the treaties stipulating it, and forms exceptions in special cases to the general operation of the law of nations. We have introduced it in our treaties with France, Holland, and Prussia; the French goods found by the latter nations in American bottoms are not made prize of. It is our wish to establish it with other nations. But this requires their consent also, as a work of time; and in the meantime they have a right to act on the general principle, without giving to us, or to France, cause of complaint.[25]

The American attitude toward the problem has changed little, the fundamental points of which to notice particularly are: (1) Our government became interested in the problem at an early date. (2) Jefferson acknowledged an international law based on precedent, whose principles resulted from "state practice." (3) This customary law of nations, as he understood it, was not satisfactory to the young American republic. (4) The law of nations could be altered by treaty agreement. (5) Jefferson's proposed reforms tended to strengthen the neutral as against the belligerent.

This statement of the American position may be compared with a statement by Canning in a dispatch to Sir Charles Stuart in 1827 refusing to ratify a treaty with Brazil which included a "free ship, free goods" clause.

> The rule of maritime law which Great Britain has always held on this subject, is the ancient law and usage of nations; but it differs from that put forth by France and the Northern Powers of Europe, and that which the United States were constantly endeavoring to establish. England had braved confederacies and sustained wars rather than give up this principle; and whenever, in despair of get-

[25] *Writings of Thomas Jefferson* (ed., Ford), VI, 387. Also see Potter, Pitman B., *The Freedom of the Seas in History, Law, and Politics*, for further historical data.

ting the British Government to surrender it by force, recourse had been had to proposals of amicable negotiations for the purpose of defining, limiting, or qualifying the exercise of the right of search, Great Britain had uniformly declined all such overtures from a conviction of the impracticability of qualifying, limiting, or even defining in terms that would be acceptable to the other party, the exercise of the right without impairing, if not sacrificing, the right itself.

The contrast is obvious. Admitting that her rule of "international law" was opposed to that put forth by the other maritime nations of the day, Canning stated that England would not negotiate. "International law," according to Canning, did not rest on any Jeffersonian idea of the consent of the governed; its validity was not derived from its success in meeting the needs of the community of nations; it was not a matter of agreement: it was *Macht-politik*.

Although American policy has on the whole been more consistent with Jefferson's statement than British policy has been with Canning's—for the British Government has often, in fact, negotiated in this matter—neither government has been wholly consistent. The greatest difficulty of any student of maritime law is to reconcile conflicting statements of principle and to decide which of many contradictory state practices may be safely accepted as precedent.

The difficulty goes back to antiquity, for the rights of men upon the sea have been the subject of ardent debate since the earliest days of civilization. The Greeks have left us few formal statements of their laws, but Plutarch's *Life of Pericles* in a number of passages shows that the idea of maritime law, even if more honored in the breach than in the observance, was developed among the Hellenic states.

> The Corinthians were joined by the Megareans, who brought their complaint that from every market place and from all the harbors over which the Athenians had control, they were excluded and driven away contrary to the common law and the formal oaths of the Greeks.

Yet Pericles

> introduced a bill to the effect that all Hellenes . . . resident in Eu-

rope and Asia . . . should be invited to send deputies to a conference at Athens . . . to deliberate . . . concerning the sea, that all might sail it fearlessly and keep the peace.

The conflict becomes more striking when we reach the more precise texts of the Romans. The legal theory, as expressed in the Justinian "*Corpus Juris Civilis*," was explicit. "By the law of nature, then, the following things are common to all men, the air, flowing water, the sea, and, consequently, the shores of the sea." The sea is subject only to the *jus gentium* and open thereby to free public use. The Emperor Antoninus summed up the legal theory in the dictum: "I am indeed Lord of the world, but the law is lord of the sea." "State practice," however, did not conform very closely to legal theory. Diodorus Siculus says that the Tyrrhenians, "having a great navy, were long masters of the sea." Cicero in a letter to Atticus uses the phrase, "he who ruled the sea, ruled the world." And Pliny wrote that Pompey in suppressing the pirates "restored the *imperium* of the sea to the Roman people." Dionysius of Halicarnassus made the extreme statement of state practice, as compared with the legal theory of Antoninus, when he wrote: "Rome is ruler of the whole sea, not only that within the pillars of Hercules, but of the whole navigable ocean."

Mr. Potter recounts the same contradictions in British thought and practice. Edward I instructed his naval officers to uphold "the sovereignty which his ancestors the Kings of England were wont to have in the sea so far as concerns the amendment, declaration and interpretation of the laws by them made to govern all manner of nations passing through the said sea"; in 1580 the Spanish assertion of right to exclude the English from the Indies was presented by the ambassador, Mendoza, to whom Queen Elizabeth replied: "The use of the sea and air is common to all, nor can a title to the ocean belong to any people or private persons, for as much as neither nature nor public use and custom permit any possession thereof." But during her reign the British courts held that "the Queen hath the whole jurisdiction of the sea between England and France."

It is not necessary to linger over the famous "battle of the books," the *Mare Liberum* of Grotius and the *Mare Clausum*

of Selden. It has little bearing on the controversy of our day, since it dealt principally with ancient and medieval claims of sovereignty over the seas, and only to a slight degree with the rights and duties of belligerents and neutrals in naval warfare. This modern problem did not loom large in discussions of international law until the French revolutionary wars, which disturbed the end of the eighteenth century and the first decades of the nineteenth century, coincidentally with the birth of the American republic.

The early history of the question nevertheless throws considerable light on the development of the modern dispute. The two extreme positions between which the thought of the world has oscillated are might and right. The freedom of the seas can be conceived as that measure of liberty which is granted to others by supreme naval power—comparable to the civic liberties granted to a municipality by an absolute monarch; the idea can also be conceived as representing certain natural and inalienable rights which cannot be taken from the weak by the strong without violation of the law of nations. In practice, such theoretical extremes are seldom encountered: even the Roman emperors at the height of their sea power recognized that there was some law before which they should bow; but rarely, if ever, has any government based its right upon the sea on so vague a foundation as immanent justice. More generally the idea of legal rights has been deduced from usage, formal concessions, agreement. Governments have based their arguments, sometimes on the basis of might, sometimes on that of right, according to circumstances. It seems a safe generalization, as true in the modern era as in antiquity, that whenever a country has found itself in possession of power in the rise and fall of nations, it has preferred to base its arguments on might.

Various writers have attempted to make a distinction between "Naval Powers" and "Continental Powers." The former are those who devote the larger part of their military budgets to warships; the latter are those who rest primarily on land armaments. The generalization is helpful as far as it goes. It explains the divergence of views between the landlocked Swiss and the seafaring Dutch. It marks the historical contrast in interest between Russia,

which never has been strong at sea, and amphibious France, which has brave naval traditions and has often challenged Britain's supremacy. But it is too simple a distinction, for it does not explain the manifest inconsistencies of the English, who since the days of Elizabeth have been, save for one or two short intervals, the Naval Power *par excellence*.

This distinction between Naval and Continental Powers, between those who are relatively strong and those who are relatively weak at sea, helpful as it is, must be supplemented by another distinction, which is harder to formulate. Obviously in England, which we can take as a type of the Naval Power, there is a difference between those who think "neutrally" and those who think "belligerently," between those who think of the sea as the road to a vast market for profitable trade and those who think of it as an arena. The sea has been a source of wealth to the English not only in the fruits of peaceful trade, but also in the spoils of war. Sir Francis Drake and Sir Henry Morgan, unloading the loot of the Spanish Main, contributed to the concept of the word "sea" in British minds as much as the British trading ships which returned from the Orient heavily laden with teas and spices. But it is many years since any such loot has been unloaded on English docks. Sometimes ships have set sail from English ports to carve out new domains for the Empire, to conquer India, to wrest colonial realms from the French in America, more recently from Germany in Africa. But no longer do they sally forth on such imperial missions; they set out with rich cargoes and return with rich cargoes, and the Cunard Company pays its dividends regularly.

Is war or trade the predominant British maritime interest? There is no unanimity and there never has been.

If all the Englishmen of his day had agreed with him on naval policy, the anonymous author of the *Libell of English Policye* (1435-6) would not have written:

> Now then, for love of Christ and of his joy,
> Bring yet England out of trouble and annoy
> Take heart . . .
> Set many wits without a variance.

To one accord and unanimity
Put to good will for to keep the sea
First for worship and profit also.

"One accord and unanimity" on behalf of more warships has not yet been reached. The fundamental questions: "Is the mercantile marine more important than the navy or less?" "Which should be the determining factor in determining maritime policy?" have not been definitely answered.

An apt illustration of this fundamental opposition happened during the American Revolution. The Dutch did an exceedingly profitable trade with the rebellious colonies, using their West Indian island of St. Eustatius as an *entrepôt* for the shipment to the American coast of munitions, military stores, and civilian commodities of every character from the European continent. This touched England on the military nerve, and also on the nerve of the pocketbook—the Dutch were making profits that ought to be hers!—and it was impossible to stop the business by search and seizure.

The same problem arose simultaneously in the sphere of English operations against France and Spain. The chief trade of Russia and other northern states was in naval stores, wood for vessels and masts, etc. This trade with both France and Spain was interfered with by the British navy, and the indefinite meaning of contraband made the controversy insoluble. Accordingly Catherine of Russia in the beginning of March, 1780, issued a declaration of the principles for regulating maritime warfare on which she intended to insist. It stipulated for free navigation of all neutral ships "from port to port, and on the coasts of nations at war," and that all enemy property except contraband should be free in neutral vessels. The French answer, heartily supporting Catherine's declaration as to free ships making free goods, for the first time contained the formula "The Freedom of the Seas" in a public document; the French, however, still adhered to the principle "enemy ships, enemy goods," a point which was not covered by the declaration. The British reply insisted upon the "Law of Nations" that "the goods of an enemy, whether contraband or not, when found on board a neutral ship are legal prize," and upon the con-

verse principle that "lawful goods of a friend on board an enemy's ship are free."

Pitt made the classic objection in 1801 to similar principles adopted by the Second Armed Neutrality; his celebrated peroration displays the whole position of England when she is a belligerent.

> Shall we allow entire freedom to the trade of France? Shall we allow her to receive naval stores undisturbed, and to rebuild and refit that navy which the valor of our seamen has destroyed? Will you silently stand by and acknowledge these monstrous and unheard-of principles of neutrality, and ensure your enemy against the effects of your hostility?

British orthodox sea writers have always treated this Armed Neutrality as "an anti-British League," though obviously such a coalition will form against any Power that attempts to control the sea. A majority of the Dutch provinces passed resolutions in favor of adhesion to the convention, and four days later England declared war on Holland and thus took her out of the ranks of the neutrals. It was easier to bottle up her small navy than to deal with her as a neutral with Russia supporting her neutral rights; it was more effective to seize St. Eustatius and to confiscate Dutch military property than to try to pick off the individual vessels that scurried across from that island with aid to the rebellious colonists.

The whole stress at this period was on belligerent "rights," but the history of the British attitude toward the freedom of the seas cannot be understood without considering the profound opposition of interests between the merchant marine and the Admiralty. Admiralty writers of course give supremacy to the Sea Lords. "We now realize," writes Sir Francis Piggott in *The Declaration of Paris*, "that the merchant service is but a branch of the Royal Navy"; from such a premise it follows that the mercantile marine should run errands for the navy, train sailors, and keep still on national policies. Thus the compromise on sea law arrived at in 1856 in the Declaration of Paris was a grave mistake; the merchants liked it but it put limits on the navy.

In times of danger the country naturally gives more and more

power to the fighting forces; when Waterloo brought an end to the long and desperate struggle with the French, the navy was in the ascendancy. All through that conflict the freedom of the seas had been reduced by one Order in Council after another; fighting for her existence, Britain showed small consideration for what the unarmed neutrals chose to call their rights, and even the armed neutrality of the Scandinavian countries was ineffective in checking the action of the belligerents. These were the formative days of our country, and in trying to defend our rights we became involved in informal hostilities with France and formal war with England.

When general peace had been reëstablished after the Napoleonic wars, the neutrally-minded point of view in England, that of trade rather than of war, began once more to assert itself, and England during the Crimean War reversed the position she had taken in the French War that ended at Waterloo. As early as October 25, 1853, the Allied French and English fleets had entered the Bosporus. On January 2, 1854, Sweden and Denmark presented identical declarations of neutrality for the coming conflict in the form of a memorandum to the Powers. The Anglo-French fleet entered the Black Sea January 5, 1854; England and France declared war against Russia March 28, 1854. Among the comprehensive principles contained in the memorandum was the principle that free ships were to make free goods, this being considered in conformity with the Law of Nations.

The interesting feature of this historical incident is that Lord Clarendon in the British reply to the memorandum did not, says Sir Francis Piggott,[26]

> adhere to the traditional British belligerent policy of seizing enemy goods on neutral ships; he adopted the one course which was in direct opposition to the traditional policy of the country, and apparently without consulting the French Government. The Note had received the best attention of Her Majesty's Government, and he was glad to express the satisfaction with which they have learned the neutral policy which it was the intention of the Scandinavian Powers "to

[26] *The Declaration of Paris, 1856*, p. 15.

pursue" and the measures "adopted for giving effect to that policy." Her Majesty's Government did not doubt "that if war should unfortunately occur the engagements taken will be strictly and honourably fulfilled," and would use their best endeavours "in support of the neutral position that these Powers proposed to maintain."

Sir Francis, a confirmed supporter of the Admiralty point of view, comments,[27]

> Either Lord Clarendon had forgotten the history of our troubles with the neutrals in 1780 and 1800, or he had deliberately ignored them in favor of the new opinions which had begun at the time to gain ground—that our policy during those periods was wrong and the neutral contentions right. It seems probable that the new policy was deliberately adopted. It is not surprising that it was vigorously attacked by those who believed that England's position in the world depended, and rightly depended, on the principles on which her belligerent action was based.

After the Crimean War the British Government was prepared to do what Canning earlier had said "Great Britain had uniformly declined to do," namely, to enter into amicable negotiations for the purpose of defining, limiting, or qualifying the exercise of the right of search, and in the Declaration of Paris of 1856 agreed definitely to limit the rule of maritime law which she had always held.

If we accept the simple distinction between Naval and Continental Powers, this action is inexplicable. Britain was unquestionably supreme at sea; logically she should have accepted no limitation on her "freedom of action." The ratification of the Declaration of Paris can only be explained when the neutrally-minded trading interests of Britain are borne in mind; in fact, the Declaration of Paris did not go far enough to satisfy the British mercantile world.

The House of Commons appointed a Select Committee on Merchant Shipping under the chairmanship of Mr. Horsfall. Its report in 1860 condemned the Declaration of Paris as an ineffective half step: either there must be complete immunity for all mer-

[27] *Op. cit.*, p. 18.

chant ships or a return to the "ancient law and usage." The committee favored the former alternative, stating its belief that "in the progress of civilization and in the cause of humanity, the time had arrived when all private property, not contraband of war, should be exempt from capture at sea." Thus the mercantile element of the greatest Naval Power lined up with the American contention at a time when the American navy was hardly existent.

The political situation in England when the Declaration of Paris was under discussion is worth notice. Immediately after the Declaration of Paris had been published, Lord Palmerston went to Liverpool and delivered a speech in praise of this diplomatic achievement. It was of course a "campaign speech"; the government needed the support of the great shipping interests centered in Liverpool; the speech was intended to get that support and shows what the government thought the shipping interests wanted. Lord Palmerston said:

> We had with France made changes and relaxations in the doctrine of war which, without in any degree impairing the power of the belligerents, tended to mitigate the pressure which hostilities inevitably produce upon commercial transactions. . . . I cannot help hoping that these relaxations of former doctrines . . . may perhaps be still further extended; and in the course of time the principles of war which are applied to hostilities by land may be extended without exception to hostilities by sea, and that private property shall no longer be exposed to aggression on either side.

The outbreak of the American Civil War revived English interest in the law of the sea. No action had been taken on the report of the Select Committee on Merchant Shipping and on March 11, 1862, Mr. Horsfall, its chairman, introduced a motion: "That the present state of international maritime law as affecting the rights of belligerents and neutrals is ill-defined and unsatisfactory and calls for the early attention of Her Majesty's Government." The two days' debate that followed, as reported in Hansard, throws considerable light on the conflict of interest between the British merchant marine and the Admiralty. John Bright argued strongly in favor of the rights of neutrals; he wanted complete immunity of private property at sea, he wanted the function of

warships limited to fighting other warships, and looked forward to the day when men would learn war no more. Having stated his own dream, he turned on the Prime Minister and quoted his Liverpool speech. Lord Palmerston, in an obviously embarrassed speech, recanted; "further reflection and deeper thinking," he said, had made him alter his opinion, and "he hoped that the honorable member" would "also come round to those second thoughts, which are proverbially the best." Disraeli took part in the debate, opposing Bright, but attacking Palmerston with equal vigor, and accusing him of having given up, by acceptance of the Declaration of Paris, "the cardinal principle of our maritime code."

The main thread in this tangle is not far to seek. The navy's "right" of search and seizure was to a certain extent limited by the Declaration of Paris, but in exchange the British mercantile marine received two concessions, which seemed to the government more than to compensate for this loss. The Declaration of Paris consisted of four points: (1) abolition of privateering; (2) neutral flag covers enemy property, except contraband; (3) neutral property under enemy flag, except contraband, is not lawful prize; (4) a blockade must be effective. The concessions made by the British navy are in (2) and (3). The concessions made to the British mercantile marine are in (1) and (4).

Consider the last point first. British commerce had suffered all through the French wars by "paper blockade," Napoleon's "Berlin decree" and other interdictions of commerce by edict. Only by command of the sea can a belligerent establish an "effective" blockade. This fourth point had the practical effect of making it illegal to blockade the British Isles, but not illegal for the British navy to blockade anybody else.

The first point, the abolition of privateers, was the thing most earnestly desired by British merchants. Always this legalized piracy had been the special pest of British shipping. The bare possibility that there might be privateers at sea had, at the outbreak of the Crimean War, driven normal trade away from British to neutral shipping. There had been an active diplomatic correspondence between London and Washington on the subject. The

English feared that the Tsar might issue *lettres de marque* to adventurous American skippers, and insurance rates on British ships in the Pacific trade went up sharply. Mr. Mason, our Minister at Paris, in an interesting dispatch to the Secretary of State, dated March 22, 1854, refers to the concern of the French and English on this subject and their hope that the American Government would prevent its citizens from privateering under the Russian flag. Mr. Mason grasped the opportunity for a little Yankee horse-trading. He said that our laws on the subject were correct, but that it might be practically impossible to enforce them, if public opinion, which was touchy on the subject, became wrought up "by vexatious searches, captures and seizures." He suggested that the best way to prevent American privateering would be to accept the American doctrine of "free ships, free goods."

It was primarily to protect British shipping interests from the danger of privateers that the British Government agreed to the second and third points in the Declaration of Paris. Lord Palmerston's *volte face* is perhaps explained by the fact that the American Government refused to accept the Declaration because it wished to retain the right of privateering.

The period from the Civil War to the outbreak of the World War was characterized by a growing realization on the part of all governments, a more vivid realization on the part of the shipping interests of all countries, of the truths set forth in the preamble of the Declaration of Paris: that maritime law in time of war has caused regrettable disputes, that uncertainty in such matters would lead to differences of opinion and serious difficulties and conflicts between neutrals and belligerents, and that it would be advantageous to all concerned to establish a uniform doctrine in so important a matter. Every war that occurred during this period emphasized these truths.

No change of circumstance had occurred to alter our fundamental view as set forth in Jefferson's letter to Genêt. We had not built up a great navy to tempt us to dream of supremacy at sea and the possibility of imposing our will on other maritime nations. We did not like the "ancient usage"; we proposed to change it by agreement. Our ultimate goal was the immunity of private

property at sea, but our main position had consistently been that of Jefferson, that the law of the sea should be based on the consent of the governed. Whenever circumstances seemed propitious, we had proposed negotiations to expand the neutrals' domain of freedom on the seas.

It was a logical development of the policy of Jefferson during the French revolutionary wars, of Pierce during the Crimean War, that our government should cordially coöperate in the conferences at The Hague and in the London Conference of 1908-9 for the clarification and amendment of international law.

The evolution of British policy during this period was equally clear. The Declaration of Paris marked the mid-point in the "neutrality epoch" in the life of Great Britain. From the fall of Napoleon to 1914 England had been neutral in all major European conflicts, with the exception of the Crimean War. The mercantile interest, represented by the Horsfall Select Committee, defended in the Commons by men like Bright, had waxed strong. As events moved toward the Crimean War, it was evident that neutral opinion would have decisive weight; the memories of the Armed Neutralities of the Napoleonic era were fresh. Even before war was declared, the Scandinavian countries issued a manifesto on behalf of neutral rights; the United States was known to share these views; the attitude of Austria and the German states was uncertain and important; British merchants did not wish to have their commerce unnecessarily interfered with. In these circumstances, the British Government decided to waive certain of its accustomed claims as a belligerent for the duration of this war, in order to conciliate neutral opinion abroad and the mercantile interests at home. After the war, contrary to the policy of Canning, the British Government agreed to "amicable negotiations for the purpose of defining, limiting and qualifying" certain aspects of "the ancient law and usage of nations." This was an important turning point in British policy. Once the precedent of negotiation on these matters had been established, the extreme position that might makes right was abandoned. It was a definite step toward the Jeffersonian ideal of international agreement.

The movement of public opinion in England which had made it

possible, if not necessary, for the government to take this step continued to grow in strength. The Horsfall Select Committee on Merchant Shipping, and the debates in Parliament of 1861 and 1862, showed to what an extent the shipping interests of England were emancipating themselves from the idea that they were merely a branch of the navy.

During the last half of the nineteenth century and the first decade of the twentieth, there was a growing sentiment in England in favor of limiting belligerent and expanding neutral rights in naval warfare by treaty and international conferences. It is noticeable that while the Declaration of Paris was accepted without debate in the Commons, it was severely, if unsuccessfully, criticized in the Lords. When the Declaration of London was submitted to Parliament in 1909, it was the Lords that killed it. On the whole, the merchant marine is stronger in the Commons, and the Admiralty predominant in the Lords.

To an extent not generally realized in either country, the divergence of views between Washington and London on this question of the freedom of the seas is due to this conflict of interest within the British realm. It has been comparatively easy for the United States to be consistent. We have never enjoyed naval supremacy, nor have we been subject to its temptation. Our admirals have never enjoyed the political prestige which history has given the British Admiralty. We have inevitably looked at the problem from the standpoint of neutrality, and our desiderata have been the same as those of the mercantile interests of Great Britain. Whenever they have had the upper hand in the government of London, we have marched in accord, as at the conferences of The Hague and London; whenever the Sea Lords have controlled British policy our interests have clashed.

This was once more forcibly illustrated in the first phase of the World War. While we were neutral, the intensity of the conflict became so great that inevitably the civilian element in the British Government was dominated by the military and naval authorities. The efforts of Sir Edward Grey in the Foreign Office to conciliate neutral opinion, as Lord Clarendon had done in the Crimean War, were thwarted by the insistence of the Admiralty.

The Declaration of Paris was not formally repudiated, but it was rendered meaningless by Orders in Council obliterating the distinction between contraband and innocent cargoes. The word "blockade" was re-defined; the freedom of the seas ceased to exist. The neutrals had no rights, except such as the belligerents saw fit to tolerate.

There would be small reason to hope that the American ideal of the freedom of the seas would ever prevail if such wars as the last were to be considered normal. In such times of passionate effort, law will have little restraining influence, unless it is defended by sufficient force. If the world is to be frequently rent by such convulsions, the seas will never be free to any but the most powerful; and there will be no alternative to the acceptance of Great Britain's supremacy, but an effort to outbuild her.

The future is not so dark as that. The almost universal hope is to make peace the norm rather than war. If the habit of neutrality sets in once more in England as it did in 1815, we shall find British mercantile interests once more in predominance, and again arguing for the revision of maritime law in the direction of freedom.

We are familiar with what happens to liberty at home when the drums begin to beat: espionage acts supplant freedom of speech; enemy trading acts suppress freedom of commerce; conscription suppresses freedom of action. It is the same on the seven seas. Liberty is a child of peace, and the most dignified argument the pacifists have is that Mars is the inevitable enemy of freedom.

The amount of liberty which the peaceful trader will enjoy upon the seas may be defined by an international conference on international law, but it can be insured in the last analysis only by the political effort of civilization to organize itself for permanent peace.

THE OPEN DOOR

THE policy we call the "open door" had its inception in the legitimate desire of the United States to assure for herself trading privileges equal to those enjoyed by any other nation in the same re-

gion wherever situated. Popularly identified with Secretary Hay's pronouncement in 1899 concerning international relationships in China, it was no new policy even for that country, since Daniel Webster nearly sixty years before had instructed the American Commissioner in China to make it clear to the Chinese Emperor that the United States "would find it impossible to remain on terms of friendship and regard" if the Emperor should grant greater privileges or commercial facilities to the subjects of any other government than to the citizens of the United States. John Hay brought the vague principle within the bounds of a definite formula for action in China; he clarified the doctrine and obtained recognition for it by the other Great Powers.

While the North American colonies were still struggling for their freedom, the idea of equal and free facilities for commerce was securely fixed in the minds of the early fathers. During the Revolution the colonies sought recognition by European governments on the basis of a guaranty to each nation of the opportunity of unrestricted trade, as opposed to the principle of special privilege practiced by the European Powers in their possessions in the New World, and to similar policies expressed in secret treaties and agreements and providing for zones of special economic and commercial privilege. In 1776 John Adams advocated the negotiation of a treaty with France offering to open to her American commerce denied by Great Britain, and contended that this would be ample compensation for any aid which France might give the colonies. The treaty concluded February 6, 1778, followed in the main Adams's original proposals, carrying liberal provisions for commerce and establishing the United States on a most-favored-nation footing. The preamble of the treaty looked to attain this by providing as the

basis of their agreement the most perfect equality and reciprocity, and by carefully avoiding all those burdensome preferences which are usually sources of debate, embarrassment, and discontent; by leaving also each party at liberty to make, respecting commerce and navigation, those interior regulations which it shall find most convenient to itself; and by founding the advantage of commerce solely upon reciprocal utility, and the just rules of free intercourse; re-

serving withal to each party the liberty of admitting at its pleasure other nations to a participation of the same advantages.[28]

This reciprocal treatment which the United States was ready at such an early date to extend to others, she in turn sought in all quarters to obtain for herself. After the Revolution, the policy of the "open door" was soon established in Europe. But while free trading privileges are not difficult of attainment in countries with stable and effective governments, it is a vexatious problem to gain similar results in so-called backward states, or in countries where governments have been committed to a policy of total isolation. This difficulty was encountered in the Far East. The two most important governments of the Orient, Japan and China, desired no trading relations with the outside world, and when their isolation was ended, both entered the family of nations as backward states. As they were even then important from the standpoint of international trade, it is not surprising that it is in the Pacific area that the policy of the "open door" has focused attention, and that the course of its development can be most easily traced.

The intercourse with the West with which Japan experimented in the middle of the sixteenth century was interrupted in the early years of the seventeenth by a reversion to traditional isolation. American fishermen were denied food, water, and fuel when forced to land in Japan, and were treated with barbarity; Japanese forts used foreign merchant ships as targets. By the middle of the nineteenth century these conditions had become intolerable to commerce, and the United States therefore instructed Commodore Perry to obtain the right of entry of American ships for re-provisioning, and a port of entry for commercial vessels. This was not with any view to trade monopoly by the United States; according to his instructions, it was the hope of the American Government that any advantages from his mission might "ultimately be shared by the civilized world."

On March 30, 1854, Perry succeeded in negotiating a treaty of amity providing peace, treaty ports, temporary commerce—pending a more detailed treaty and most-favored-nation treatment.

[28] *The Treaties of 1778,* p. 23. Edited by G. Chinard, Institut Français de Washington.

America thus opened the door of Japan not only to herself but to the world. Four years later, Townsend Harris set out to secure the continuance of Perry's temporary trading arrangements, and, accredited first as Consul General and later as Minister, obtained the signature of the Japanese Government to the commercial treaty which was to serve as a model for Japan for the next forty years.

Korea was also a hermit nation. As in the case of Japan, it was through the offices of the United States navy that this country was opened to world commerce. After one unsuccessful attempt in 1867, Commander Shufeldt was authorized in 1878 again to try to negotiate a commercial treaty. Japan had concluded a Korean treaty of commerce in 1876, and she was opposed to sharing her privileges under that agreement; but on account of the rivalry between Japan and China, the latter's influence was exerted with that of Korea on behalf of the United States, and the desired treaty was finally signed on May 22, 1882.

Conditions in China prior to John Hay's enunciation of policy were such that continued European encroachments made it not improbable that a process of partition would render impossible unrestricted trade over wide areas. Japan had defeated China in the war of 1894-5; Germany had a foothold in Kiaochow; Russia had occupied Port Arthur; England had secured Wei-hai-wei; France was in control of Kwangchowwan in the south; and even Italy had been trying to gain a position on the Chinese coast. Each of these occupations, though involving a comparatively limited territory, connoted an additional "sphere of influence" to those already in existence in which equal trading rights would be increasingly difficult to secure.

This was the condition which confronted the United States when she emerged from the Spanish War in possession of the Philippine Islands and conscious of her position as a Pacific Power. The promotion of trade with China became more than ever desirable, and this could not be developed if nations which had obtained special privileges were unwilling to share them. There was also a strategic problem, other important Powers having secured for themselves coaling stations on the China coast, and

having entrenched themselves in China with one eye on territorial aggrandizement and the other on economic exploitation. A recently published letter from Minister Conger at Peking to Secretary Hay dated March 1, 1899,[29] clearly recognized this situation. After expressing the belief that China seemed to be breaking up, he said:

A glance at the map will show Russia strongly intrenched in Manchuria, Germany in Shantung, Italy demanding Chekiang, Japan expecting Fukien, England at Hongkong and the French in Kwangtung and Tongking, with the English claiming an extended sphere along the Yangtze and a general and most important settlement at Shanghai. There is practically nothing left for the United States but the province of Chili. This, however, with Tientsin as the entrepôt for all northern China, is destined in the future to be commercially one of the most valuable permanent possessions in the Orient.

The policy of the other Powers seems to be to obtain possession of some unimportant harbor or bay, claiming as a perquisite a temporary control of developments in the adjacent province, with a prior claim, thus established, to the entire province at the proper time.

If our government should have a like purpose, some point might be selected on the coast of Chili, and the same tactics employed. . . .

My own opinion is that a permanent ownership of territory (except for a coaling station if that is needed) in China is not desirable. But if all China is to fall into the hands of European Powers, a strong foothold here by the United States, with something tangible to offer them, might compel them to keep permanently open doors for our commerce.

Great Britain had repeatedly sought American coöperation in a joint declaration of an "open door" principle, but without success, the proposal being repugnant to the United States because it savored of a form of "alliance," particularly as joint action was contemplated to maintain the policy. So in his notes to foreign states on September 6, 1899, Secretary Hay enunciated a unilateral policy in line with the clearly established principle of protecting American trade; he had abandoned the notion that it

[29] Dennis, *Adventures in American Diplomacy, 1896-1906*, p. 208.

might be advisable for the United States to claim a station on the coast near Tientsin. The note to Great Britain contained the following passages:

> The present moment seems a particularly opportune one for informing her Britannic Majesty's Government of the desire of the United States to see it make a formal declaration and to lend its support in obtaining similar declarations from the various Powers claiming "spheres of influence" in China, to the effect that each in its respective spheres of interest or influence—
>
> First—Will in no wise interfere with any treaty port or any vested interest within any so-called "sphere of interest" or leased territory it may have in China.
>
> Second—That the Chinese treaty tariff of the time being shall apply to all merchandise landed or shipped to all such ports as are within said "sphere of influence" (unless they be "free ports"), no matter to what nationality it may belong, and that duties so leviable shall be collected by the Chinese Government.
>
> Third—That it will levy no higher harbor dues on vessels of another nationality frequenting any port in such "sphere" than shall be levied on vessels of its own nationality, and no higher railroad charges over lines built, controlled, or operated within its "sphere" on merchandise belonging to citizens or subjects of other nationalities transported through such "sphere" than shall be levied on similar merchandise belonging to its own nationals transported over equal distances.[80]

Being engaged in slicing the "Chinese melon," some European Powers were far from eager in their response to Hay. In these circumstances, it required boldness on Hay's part to demand the assurances of the other Powers that the treaty rights of the United States with China should remain secure in Chinese territory acquired, or to be acquired, by foreign nations, and to obtain the unanimous consent required to make the individual pledges binding. This consent eventually came, however, and the doctrine, founded on the desire jealously to guard the rights and increase the opportunity of American traders, served to check

[80] *Ibid.*

further encroachments of other states by making the fruits of special spheres of influence less valuable.

There is a popular impression among Americans that the United States is entitled to great credit for what they describe as her enlightened and helpful policy in China. Unfortunately for this belief, the policy of the "open door" is not based on altruism; it is merely an insistence that citizens of the United States shall have an opportunity to trade with the Chinese on equal terms with other nationals. We neither seek preferential treatment nor willingly suffer others to obtain it; we desire that China should not be divided into spheres of influence in which Powers alien to China might control the trading opportunities of our citizens. As the statesmen of China and other countries see the policy, we have been concerned with our own interests, not with China's. Although ourselves non-aggressive, we have at times seemed to the Chinese to benefit by the "imperialism" of other Powers by demanding "most-favored-nation treatment" after these Powers have succeeded in wresting some special privilege from China.

Though the basis of our policy has not been altruistic, it stands out in compelling relief against the background of European diplomacy in the Orient. While preserving American interests, it gives China at the same time an opportunity to set her house in order. This desire is clearly discernible in the last step in the consummation of this policy at the Washington Conference in 1922. There for the first time the Principal Powers having interests in China joined with her in an agreement to respect her sovereignty, independence, and territorial integrity, and to maintain the policy of the open door. The powers other than China pledged themselves not to seek or support their respective nationals in seeking:

(a) any arrangement which might purport to establish in favor of their interests any general superiority of rights with respect to commercial or economic development in any designated region of China;

(b) any such monopoly or preference as would deprive the nationals of any other Power of the right of undertaking any legitimate trade or industry in China, or of participating with the Chinese Government, or with any local authority, in any category of public

enterprise, or which by reason of its scope, duration or geographical extent is calculated to frustrate the practical application of the principle of equal opportunity.

China on her part agreed to avoid discrimination in the treatment of foreign subjects and citizens. A cardinal difference was made when a self-supported policy was turned into an agreement with other Powers, and when China herself was brought into it. The arrangement was imperfect only in that Russia was not represented at the conference, and is not a party to the treaty.

Events since the Washington Conference show that the United States continues to look with disfavor on secret agreements between nations providing for zones of special economic and commercial privilege. Ambassador Child reiterated this standpoint at the Lausanne Conference in 1922 in connection with the secret treaty between Great Britain, France, and Italy respecting the natural resources of Turkey. Our own commercial treaty with Germany, 1923-1925, includes a "most-favored-nation" clause without conditions; in fact, this has always been the heart of our commercial policy, and, as Tyler Dennett[31] says, the Hay pronouncement did not secure more than was already accrued to us under the "most-favored-nation" clause in existing treaties. The peculiar merit of the declaration lay in its halting of the partition of China.

[31] *Americans in Eastern Asia,* pp. 647-8.

CHAPTER THREE

DOMESTIC CONTROL

FOREIGN AFFAIRS AND THE PRESIDENTIAL SYSTEM

THE peculiar difficulty of conducting foreign relations lies in the rise of democracy in an anarchic world society. Because of the danger of invasion or strangulation from abroad, unity, dispatch, and secrecy have seemed necessary, while the development of constitutionalism and democracy has demanded a reasonable responsibility of the executive to the people or their representatives. For a long time the notion of executive responsibility to the legislature was confined to domestic affairs. Queen Elizabeth forbade Parliament "to meddle with matters of state." James I and his son each emphasized the independence of the prerogative in foreign affairs, and John Locke admitted that foreign affairs must be left "to the prudence and wisdom of those whose hands it is in," though he insisted that they must be managed for the public good. Even in the nineteenth century we find the voice of European parliaments feeble in the conduct of international relations. "It is in the cabinet alone," said Palmerston, "that questions of foreign policy are settled."[1] De Tocqueville, taking American democracy as his text, had "no hesitation in avowing his conviction that it is most especially in the conduct of foreign relations that democratic governments are decidedly inferior to governments carried on upon different principles." "Democracy," he continued,

> is unable to regulate the details of an important undertaking, to persevere in a design and to work out its execution in the presence of serious obstacles. It cannot combine its measures with secrecy and it will not wait their consequences with patience. These are qualities which more specifically belong to an individual or to an aristocracy and they are precisely the means by which an individual people attains to a predominant position.[2]

This distinction between foreign and domestic policy could not last. It was impossible to deny the importance of decisions in for-

[1] Morley, *Life of Cobden,* II, 231.
[2] *Democracy in America,* New York, 1862, I, 254.

eign policy to the citizen, and as legislatures grew in power it was equally impossible to prevent their expression of opinion and eventual control. In the parliamentary system this control is exercised through the continuing power of parliament to question, criticize, and eventually expel the minister whose conduct it disapproves, while in the presidential system it is in the power of the legislature or one branch of it to veto important decisions or commitments.

The advantages alleged for the parliamentary system are: (1) It assures unity of the legislative and executive branches, which is especially important in foreign affairs because most treaties and decisions require the coöperation of both departments. (2) It assures, at least in the case of the British practice of executive dissolution of parliament, a policy always responsive to the electorate. (3) It keeps public opinion interested and instructed. Parliamentary debate is real when ministers participate in it and may fall as a result of it. Consequently, the press and people follow it with intelligence, public opinion is ascertainable and executive policy can be shaped from day to day in its light. (4) It assures that places of executive responsibility will always be filled by men who are not only known, experienced, and able, but who are also adapted to the particular emergency.

In all these respects the parliamentary system is said to be superior to the presidential system with its probability of conflict and deadlock between the executive and the legislature on important issues, with its astronomical elections and fixed terms, which may prolong a policy after the people are opposed to it, its meaningless legislative debates, upon which little of importance depends, and its tendency to send available rather than able men into the presidency and to keep them there irrespective of their adaptability to an exigency.

In spite of these advantages, it must be noticed that in recent years criticism of the method of controlling foreign relations has been widespread in parliamentary countries, especially in England. It has been alleged that parliament is often uninformed until commitments have been made, when it is too late to withdraw. It has also been asserted that royal influence has fre-

quently had an importance in foreign relations incompatible with democratic theory. Furthermore, there have been occasions when unity has not been achieved because of obstruction by the upper house—for example, the House of Lords rejected the Declaration of London approved by government and commons—or because of a change in government after a policy has been embarked upon. It may be questioned, however, whether any of these criticisms except the last concerns matters inherent in the parliamentary system. Parliamentary approval of treaties before ratification is in fact required in many constitutions and practiced in others with respect at least to treaties involving money appropriations or the rights of citizens; the British Labor government's proposal to lay all treaties before Parliament prior to ratification was, however, abandoned by the present Conservative government.

It has been said that the presidential system renders scientific negotiation easier because of the independence of the executive from legislative heckling. It is also said that the system of checks and balances assures a more certain guarantee against secret treaties and against war unsupported by public opinion. Finally, the very difficulty of making rapid decisions of major importance under a system of checks and balances may tend to eliminate this type of activity in world society. Says Mr. Root, referring to the remarks of De Tocqueville already quoted:

> It is because democracies are not fitted to conduct foreign affairs as they were conducted in De Tocqueville's day that the prevalence of democracy throughout the world makes inevitable a change in the conduct of foreign affairs. Such affairs when conducted by democratic governments must necessarily be marked by the absence of those undertakings and designs, and those measures combined with secrecy, prosecuted with perseverance, for which he declares democracies to be unfit.[3]

To these arguments the advocate of parliamentary government may well reply that if greater freedom of negotiation exists under the presidential system, it is only by incurring the probability of eventual defeat in the legislature; that guarantees against secret

[3] *Proceedings of the American Society of International Law, 1917,* p. 9.

treaties are just as possible under the parliamentary system; and, finally, that the immunity from the necessities contemplated by De Tocqueville depends, not on the desires of a single state, but on the whole system of international law and organization.

This suggests what is perhaps the real basis for the difference in the form of control of foreign relations on the two sides of the Atlantic. American conditions have been different from European conditions. Europe has been confronted from the beginning of the modern era with a considerable number of states of somewhat equal power in close proximity and with numerous contacts. None of these states has been wholly self-sustaining. They have had to depend on their neighbors for many economic necessities, but historic and national differences and rivalries have prevented the development of a strong international community. Thus international relations have necessarily been considered primarily from the strategic point of view. The desire of legislatures and peoples for control has had to be subordinated to the necessities of defense, both of territory and economic requirements. The parliamentary system, at first applicable only in domestic affairs, has gradually extended into the foreign field, but the possibilities of rapid and final decision by the executive in matters of war and alliance have not been wholly eliminated, and probably cannot be eliminated until international law and organization have been further developed.

Since the establishment of their independence, the peoples of the two Americas have been largely self-sustaining and economically and geographically separated from dangerous enemies. Their wide expanse of undeveloped land and abundant mines and sources of power have permitted an expansion of agriculture and industry without serious international complications. This situation has been especially true of the United States, whose people have seldom had a real sense of insecurity; they have not found it necessary to adapt their system for controlling foreign relations to strategic considerations to the same extent as has Europe.

Whether this happy situation will continue may be doubted. After the Spanish-American War, Reinsch saw that it was disappearing. "With our entrance upon imperial politics the in-

tricacies of our governmental relations have markedly increased." To the same effect, Woodrow Wilson in presenting the fifteenth edition of his book on *Congressional Government* about the same time wrote:

> Much the most important change to be noticed is the result of the war with Spain upon the lodgment and exercise of power within our federal system; the greatly increased power and opportunity for constructive statesmanship given the President, by the plunge into international politics and into the administration of distant dependencies, which has been that war's most striking and momentous consequence. When foreign affairs play a prominent part in the politics and policy of a nation, its Executive must of necessity be its guide: must utter every initial judgment, take every first step of action, supply the information upon which it is to act, suggest and in large measure control its conduct. . . . It may be, too, that the new leadership of the Executive, inasmuch as it is likely to last, will have a very far-reaching effect upon our whole method of government. It may give the heads of the executive departments a new influence upon the action of Congress. It may bring about, as a consequence, an integration which will substitute statesmanship for government by mass meeting. It may put this whole volume hopelessly out of date.

Since that time the United States has grown more dependent economically. Numerous important raw materials for industry must be imported and foreign markets are of major importance. Opportunities for investment in American territory are relatively less abundant and capital is being exported from the country at the rate of a billion dollars a year. These conditions render American interests abroad more susceptible of hostile attack, and the country itself is in more danger of invasion through submarine and aircraft, not to mention the possibility of subversive propaganda in a heterogeneous and somewhat unassimilated population.

This change in conditions has created in many minds considerable pessimism as to the future of the American system of controlling foreign relations. The answer to their fears must be that this system has not been stationary; adaptations to changing conditions have proved possible in the United States as in other

countries, and as conditions have been changing more rapidly in recent years than heretofore, further evolution of the system of control is not impossible.

The Roman republic and the Hanoverian monarchy described by Montesquieu and Blackstone were both governments of separation of powers maintained by checks and balances. Both were forced to achieve unity by the increase of international complications. One went the way of executive sovereignty; the other that of parliamentary sovereignty. The difficulties in the way of either such development in the United States are obvious. While presidents have sometimes acted like dictators in brief emergencies, an intensive reaction of congressional control has always followed. The jealous control of the purse by Congress is a check which would inevitably curb an ambitious president if the electorate's opposition to a third term should wane. Furthermore, the physical separation of the cabinet from Congress, the comparative equality of power of the two houses, rendering each a check upon the other, the "states' rights" sentiment which prevents a gradual subordination of the Senate, and the position of the Supreme Court as final interpreter of the constitutional separation of powers—all these militate against the development of responsible government.

Neither the executive nor the parliamentary method of developing unity seems likely of achievement in the United States. Instead, the fundamentals of the present system are likely to continue, with an increase in informal contacts, a more enlightened public opinion, a more extensive reliance upon experts, and a progressive organization of the State and other departments for efficiently conducting foreign business.

THE DEVELOPMENT OF FOREIGN AFFAIRS

Functional distribution of foreign contacts and influence is to be found within the executive departments of governments. The foreign office, represented in the United States by the State Department, is usually considered the executive department conducting foreign affairs. The Departments of War and of the Navy are also primarily concerned with foreign relations; the Department of Commerce is increasingly interested in foreign com-

merce; both the Treasury and Post Office have made international agreements with foreign administrations; the Department of Labor is concerned with the vexing immigration problem; all of the departments, in fact, except those of the Interior and of Justice, maintain officials abroad. The permanent foreign agencies and personnel are as follows:

	Agencies	*Personnel*
State Department	450	3641
Treasury	44	105
War	27	147
Navy	12	57
Agriculture	4	12
Commerce	41	297
Shipping Board	5	120
Tariff Commission	1	4
	584	4386

These permanent agencies are accredited to foreign governments through the State Department, but they receive instructions from their own departments and report to them. It cannot be said in anything but a formal sense that foreign affairs are concentrated in the State Department. A similar situation exists in all governments. More and more officials in every department are making direct contacts with officials in similar departments of foreign governments.

It was in the multiplication of such contacts that effective Allied coöperation was achieved during the war. "The national administrations" writes Sir Arthur Salter, "now touched each other not at one point (the foreign offices) nor at half a dozen (the ministers of the main departments) but at scores (the officials and experts responsible for the detailed controls). And the contact was no longer occasional and irregular but continuous."

In this shifting of contacts from a diplomatic to an administrative basis, Sir Arthur sees the possibility of effective international coöperation in times of peace. "The development in government which resulted in the late war was largely a process of over-centralization and over-concentration. The whole strength and activities of great nations were controlled and dominated by national policies; their economic development was directed, even their in-

tellectual thought and education inspired, by a central policy distorted by a single bias." The war broke this tension, he thinks, and the world, especially through the League of Nations, is making "a great effort of decentralization." Disputes, he admits, may arise even more frequently with this multiplication of contacts, but "better many localized disputes than a few which affect the general political relations of the two countries."[4] In this he differs from Mr. Hughes who insists that "unity of control of contact with foreign governments is absolutely essential."

Thus it appears that the conduct of international relations is undergoing a transformation. Instead of keeping their houses closed except for a single doorway—the foreign office of the central executive—states are opening windows and doors everywhere. Cities, states, dominions, legislators, courts, military and naval and commercial attachés, trade commissioners, agricultural and tariff experts are moving onto the international scene, making direct contacts with each other and with the foreign ministers, diplomats, consuls, admirals, and generals who were there before them.

Parallel with this tendency of many national government agencies to make foreign contacts has been the development of treaty making and international organization in almost every field of government; labor, narcotics, slavery, tariffs, health, game preservation, etc., have all come into the international field. This process, being a natural development, is difficult to stop, however much it may conflict with the traditional conceptions of international law and diplomacy. Almost every activity of government is nowadays found occasionally to have effects, not only within the state's territory and upon its nationals, institutions, and culture, but also in foreign territory, upon aliens and upon foreign institutions and attitudes. Responding to such a situation, agencies of government engaged in the most diverse activities have found it advantageous to study the effects of their proposals abroad, the influence of foreign policies upon them, and the improvements in method made by foreign agencies in like business. Convenience has inevitably led to direct contacts for facilitating such studies, and reciprocal

[4] *Allied Shipping Control, an Experiment in International Administration,* pp. 251-256.

modifications of method and policy in the common interest have resulted. The next step has been the creation of permanent international rules and international organization.[5]

EVOLUTION OF THE AMERICAN SYSTEM OF CONTROL

STATES, like organic forms, gradually adapt their systems for controlling external behavior to the environment in which they find themselves, or perish. But traditions, prejudices, and principles sometimes render such adaptation difficult. States, moreover, have considerably more power than most organic forms to modify their environment to suit their peculiar attitudes; thus there is a reciprocal relation between a state's internal control of foreign policy and the international system. The experience of the United States singularly illustrates this relation. Her system for controlling foreign relations sprang from the eighteenth century natural-rights theory, that government is a tool rather than a director of public opinion and public policy. This theory has been modified by occasional compromises resulting from necessity, experience, or changing attitudes. Sometimes these compromises have been formally expressed, sometimes merely evidenced by practice, and there has always been opposition to them.

It was a long step from the "militia diplomacy" controlled by the Continental Congress acting through *ad hoc* committees, without even a permanent clerk to answer correspondence, to the Department of State and the foreign service of the United States, trained and organized under the Rogers Act as an efficient administrative machine responsible to the President of the United States. Yet features of the militia system still remain, and perhaps some of them are essential to democratic principles. It may be that the future of our system for controlling foreign relations, if not of our whole system of government, depends upon the possibility of adapting the international environment to the presuppositions of democracy. A state organized to delay decisions until deliberate

[5] Details of this international organization under the title, "Other Forms of World Coördination and the Share of the United States in Them" will be given in the next volume.

discussion has crystallized opinion may prove unable to survive when at close quarters with governments able and ready to press an advantage with all their resources. The United States was long sheltered by friendly oceans, but today her interests penetrate to every quarter of the globe, and the protection of the seas is less certain than it was in the days before the submarine and aircraft. Unless we can in fact make the world "safe" for it, must we be forced to abandon democracy, at least in foreign relations?

The evolution of the American system of control of foreign relations falls naturally into four periods; the pre-constitutional period, the formative period, the period of western development, and the period of world power.

The first period was characterized by the almost complete impotence of the central system for controlling foreign relations. The natural-rights theory which feared strong government was in part responsible. Government in the opinion of men like Samuel Adams should dispense justice rather than determine policy. That this attitude was extended to the international field is shown by the numerous resolutions passed in Congress urging the states to observe the requirements of international law. Thus on November 23, 1781, the state legislatures were recommended to provide for the punishment of offenses relating to violation of safe conducts, breaches of neutrality, assaults upon public ministers, infractions of treaties, and "the preceding being only those offenses against the law of nations which are most obvious, and public faith and safety requiring that punishment should be so extensive with all crimes, Resolved, that it be further recommended to the several states to erect tribunals in each state, or to vest ones already existing with power to decide on offenses against the law of nations not contained in the foregoing enumeration."[6] The American statesmen proposed high respect for international law, which was commonly considered a branch of natural law. They looked upon it, according to Sir Henry Maine, as "a main part of the conditions on which a state is originally received into the family of civilized

[6] *Journal of Congress* (Ford, ed.), XXI, 1137. Other similar resolutions are collected in Wright, *The Enforcement of International Law through Municipal Law in the United States,* p. 221.

nations." But they saw little else in international relations. If legislation and courts were provided to assure the application of the "universal common law," what more was required? The need of a central authority for directing foreign relations was not obvious.

A natural corollary was the dominance of the locality over the nation. If government was merely to administer natural law, the nearer it was to the people the better. Distant government was arbitrary government. The Revolution sprang out of agitation begun in the Massachusetts town meetings. Committees of correspondence organized in the towns made the movement state-wide, after which standing committees of correspondence promoted contacts among the colonies. Thus the Continental Congress was simply an organization of these local committees and its own work was done entirely through committees. To a large extent the spirit of localism dominated it throughout. Even in the stress of war a national consciousness was hardly permitted to develop, and had the will been present, the factor of distance would have greatly impeded its expression. After the war was over, the rivalries of local delegates prevented effective united action and the creation of any permanent organization for controlling foreign affairs. Even in this field the work was done by special committees created for a particular object. There was such a want of continuity that papers dealing with foreign transactions were not collected in one place; correspondence was not answered, and the American ministers in Europe had to act on their own initiative with little information as to the state of things in America.

Many examples could be cited of the slipshod manner of conducting foreign business. Benjamin Franklin remarks rather plaintively that the only response to various requests to Congress for reimbursement of expenditures was one of a year before declaring that the matter was under consideration. Congress, without any notification, drew upon John Adams's account in Amsterdam to twice the extent of his holdings so that he had to make a hurried journey of three weeks from England to Holland to raise the necessary balance in the open market.

A third factor that tended to perpetuate hostility to centralized

authority was the pessimistic view entertained of human nature that was contributed by the Puritan tradition and accentuated by the slogans of the Revolution. Fear of usurpation and tyranny seemed to be universal. Every public authority must be limited by law and kept to the limits through a system of checks and balances. As long as Congress was the sole organ of central government, the system of *ad hoc* committees seemed the best way of preventing usurpation. A permanent committee, it was thought, would be dangerous: even more dangerous would be a permanent administrative official. This attitude was repeatedly manifested in the Constitutional Convention of 1787. Thus Mason of Virginia favored depriving the Senate of the power of originating money bills because "it could already sell the whole country by means of treaties." Gerry of Massachusetts wanted Congress as a whole to have the power of making peace because "the Senate will be corrupted by foreign influence." Madison, on the other hand, feared the President more than the Senate and wanted the latter to have power to make treaties of peace without the concurrence of the President, since the latter "would necessarily derive so much power and importance from a state of war that he might be tempted if authorized to impede a treaty of peace."[7] Butler favored this "as a necessary security against ambitious and corrupt Presidents," mentioning "the perfidious policy of the Statholder in Holland and the artifices of the Duke of Marlbro to prolong the war of which he had the management."[8]

These ideas of natural law, localism, and fear of usurpation were embedded in the Constitution, with its judicially enforced bill of rights, its federal system guaranteeing states' rights, and its separation of powers preserved by checks and balances. They were in the minds of men in the period before the Constitution and contributed to prevent centralized control. The astonishing conditions which resulted in respect of foreign affairs cannot be considered in detail. It is sufficient to notice that the initiative in foreign policy was for a time vested mainly in the French Minister

[7] Madison, *Debates*, August 15, 1787, September 8, 1787.
[8] Farrand, *Records of the Federal Convention*, II, 297, 540, 541, 548.

in the United States and in the American Minister in France. Fortunately, Gerard, the French Minister, was anxious to make the Revolution a success, and, although his methods of influencing Congress would not always bear scrutiny, his activity was directed toward thwarting the cabals against Washington and Franklin which might otherwise have ruined the American cause. Luzerne, his successor, was equally effective in preventing Franklin's displacement in France. On the other side of the water, Franklin, Adams, and Jay were ready to make policy themselves in the absence of instructions and to ignore instructions when they thought them unwise. Thus they perhaps served the United States as well as a Foreign Office would have done.

The limitations of such a situation gradually dawned upon Congress, and in 1781, partly owing to the activities of Luzerne, Congress organized a Department of Foreign Affairs. Even then it frequently considered foreign problems through special committees and so embarrassed Livingston (the first Secretary) that he resigned in the summer of 1783. Experience, however, had its effect, and in the following year John Jay was appointed Secretary and was given greater freedom of action, though his powers were still inadequate. The states failed to carry out the engagements of treaties, particularly that of the English treaty with respect to British creditors, and Jay had to listen to the jibes of foreign governments that the United States pretended to be one state when negotiating treaties but proved to be thirteen states when fulfilling her obligations. With this conviction abroad, only too well borne out by the facts, the important negotiations with Spain in respect of the Mississippi were fruitless, as were those with England for a commercial treaty. Congress's lack of power to organize forces, to raise money directly, and to establish a uniform commercial policy, were equally embarrassing. Out of these conditions grew the successful demand for a reorganization of the government and especially for the creation of an adequate central authority to conduct international relations.

The Constitution came into effect in 1788, and the system for controlling foreign relations began its second period of development. The Constitution had practically eliminated the influence

of the states in treaty and war making, concentrating nearly all foreign relations power in the central government. It had not imposed any obvious general limitations upon the exercise of these powers. The treaty power, the war power, the taxing power, the power to regulate commerce, the power to enforce treaties and international law, and the power to receive and accredit diplomatic representatives, were given in general terms. Neither states' rights nor private rights promised seriously to impair the power of the government to conduct foreign policy. The doctrine of separation of powers, however, persisted. The fathers of the Constitution were convinced of Montesquieu's dogma, and applied it to the control of foreign relations. Some thought this power belonged to the executive, some to Congress, but in fact they compromised and gave authority to receive foreign ministers and to act as Commander-in-chief of the Army and Navy to the President. Powers to declare war, to organize the army and navy, to regulate commerce, to define offenses against the laws of nations, to pass laws necessary and proper for executing all federal powers, and to raise and appropriate money—these were given to Congress. The powers of most immediate importance in conducting foreign relations, those to make treaties and to appoint foreign ministers, they gave to the President acting with the advice and consent of the Senate. Even the courts were not forgotten in this distribution, and to the federal judiciary the Constitution entrusted the eventual enforcement of treaties, which, together with the Constitution itself and acts of Congress, were declared the supreme law of the land, "anything in the Constitution or laws of any state notwithstanding." These broad provisions required interpretation and during the period now under consideration this interpretation proceeded largely from executive initiative.

Foreign relations were still looked upon from a legal rather than from a political point of view. The main function of the government in this field was thought to be the enforcement of its rights and the fulfilment of its obligations under international law. The provision for judicial enforcement of treaties, aimed especially at the state confiscation laws contrary to the peace treaty with England, was thus of great importance. Nevertheless,

other activities were necessary. Treaties had to be made in order to define rights of commerce and neutrality, and to this end it was necessary to develop a procedure for coöperation between the President and the Senate. After Washington's unsatisfactory attempt to act with the Senate as an executive counsel during the negotiation of an Indian treaty, the system was adopted of independent presidential negotiation and subsequent submission of the signed instrument to the Senate for its consent to ratification. This procedure was first utilized in the negotiation of the Jay treaty in 1794, though it is interesting to notice that the real initiative in suggesting it came from a small group of Federalist senators who were anxious to maintain peace with England, but feared that a public discussion of the conditions of the treaty would defeat their plans. The Jay treaty also furnished the first occasion for a Senate amendment to a treaty and for the presentation by the House of Representatives of the view that a treaty could not limit its own discretion in the exercise of its constitutional powers. Washington sharply denounced this view in his message refusing the House request for papers on the Jay negotiations.

In spite of these signs of friction in the treaty-making machinery, the President was generally successful during this period in maintaining his initiative and achieving his policy in treaty making. Jefferson strengthened the treaty-making power by annexing Louisiana, though he had to quiet his own constitutional doubts to do it. The Senate, it is true, defeated several treaties by unacceptable amendments, but in no case on a policy which the executive regarded as of major importance. It was not until the final administration of this period, that of John Quincy Adams, that executive initiative in negotiations was seriously called in question. This was on the occasion of Bolivar's invitation to the Panama Congress. Although the Senate and House both eventually agreed to send a delegation to this congress, their debate indicated considerable objection to the policy to be followed, and delayed action for so long that the delegates of the United States did not reach Panama until the congress had adjourned. The executive also maintained his initiative in the making of unilateral

decisions of international importance. In 1793 Hamilton and Madison engaged in a pamphlet debate on the power to recognize neutrality, a subject not specifically mentioned in the Constitution. Madison took the position that it was associated with the war power and belonged to Congress, but Hamilton regarded it rather as of a diplomatic character, belonging to the executive. The latter view has in fact prevailed, and has applied also to the recognition of new governments and states. The cabinet was unanimous in supporting Washington's independent right to receive Citizen Genêt and thus to recognize the revolutionary government of France. John Quincy Adams when Secretary of State successfully insisted that recognition of the Latin American republics was an executive prerogative.

Even in war making the peace-loving Jefferson used the navy in defense against Tripolitan pirates without express authorization of Congress, though with some constitutional qualms. It appears that his conscience was unnecessarily active, since the federal convention had expressly modified Congress's power "to make war" in the original draft to a power "to declare war," in order that the President alone might be free to use the forces for defense. Notwithstanding the fact that the actual use of commercial pressure short of war and recourse to formal war itself required action by Congress, the executive was always successful during this period in gaining the support of Congress when he thought it necessary. Adams began hostilities against France in 1798 and later stopped them, both times carrying Congress with him, as did Jefferson in his embargo and non-intercourse policies, and Madison in the War of 1812, although in the latter case Congress undoubtedly brought considerable pressure to bear upon the President in favor of war. During this period two important formulations of policy were made, contained in Washington's farewell address and the Monroe Doctrine.

The main preoccupation of the period was with the enforcement of legal rights and the fulfilment of legal obligations. The President's capacity to settle claims by negotiation and to submit them to arbitration on the basis of broad treaty provisions was established by the Jay and other treaties. Some doubt was raised as to

the President's power to use force in fulfilment of the international law of neutrality. To obviate this difficulty and to assure the jurisdiction of the courts, Congress passed the first neutrality act in 1794. Legislation was also passed to assure the fulfilment of international obligations with respect to foreign ministers.

In general, it may be said of this period that foreign relations were approached in a legalistic spirit; that they were important, and that Presidents were chosen because of their experience in diplomacy, and that they displayed competence and leadership. There was friction, it is true, but except for John Quincy Adams's policy with reference to the Panama Congress the President's policy always prevailed.

In the next period, from Jackson to the Spanish-American War, the situation was different. The country was devoting its attention to the development of the west. Foreign policy, with certain notable exceptions, was of slight importance. Leadership in general passed to Congress, because the great men of the period were more apt to be in the Senate or the House than in the presidency. When foreign policy came to the front at a time of the occupation of the White House by a strong-minded man, the executive was likely to establish a temporary dictatorship; as, for instance, in Polk's policy leading to the Mexican War, Lincoln's conduct of foreign affairs during the Civil War, and Cleveland's *démarche* on Venezuela.

In the making of treaties, while the procedure adopted in the earlier period was continued, the Senate more frequently exercised its power to defeat or radically amend the negotiated instrument. It occasionally took the view that international commerce ought not to be regulated by treaty since power over commerce was vested in Congress. It also defeated several annexation treaties; in the case of Texas, however, annexation was subsequently effected by joint resolution. It is also interesting to notice that Polk departed from the usual practice of independent executive negotiation in the case of the Oregon treaty and threw the responsibility for a compromise upon the Senate by asking the latter's consent before signature. Toward the end of this period the Senate took up its characteristic

position in regard to general arbitration commitments by defeating the Hay-Pauncefote treaty.

There was also an increased congressional initiative in the making of national decisions. Congress occasionally passed resolutions suggesting recognition of foreign states, as in the cases of Texas and Cuba, and clashed with the executive in attempting to withdraw recognition of the Maximilian government in Mexico.

Congress also attempted, but without great success, to limit the independent power of the President to use forces abroad for protective purposes and to control the making of war. The Mexican, Civil, and Spanish wars were each initiated by the President prior to congressional declaration. In the first case actual responsibility for the war undoubtedly rested on the President, who was later censored by congressional resolution. The Supreme Court, notwithstanding a vigorous dissent by four of its members, recognized Lincoln's blockade proclamation as a proper exercise of power and as beginning a state of war in spite of the absence of congressional declaration.[9] Congress forced the Spanish War by authorizing intervention in Cuba, but its actual declaration occurred several days after President McKinley had begun war by a blockade proclamation, and was made retroactive to that time.

Many congressional decisions which actually raised diplomatic controversies were on subjects clearly within the competence of Congress, such as the regulation of commerce and immigration. Several times, however, the exercise of these powers ran counter to the interests of foreign governments or, as in the Chinese exclusion acts, even to their treaty rights. During this period Congress formally endorsed certain policies originated by the executive, including the right of expatriation and the Monroe Doctrine.[10]

The problems connected with the enforcement of international law to a considerable extent concerned boundaries, and arbitration of them was often resorted to by means of special treaties. A number of financial claims were submitted to arbitration by the

[9] The Prize Cases, 2 Black, 635.

[10] It may be questioned whether the congressional resolution of 1895 supporting President Cleveland's policy in regard to the Venezuelan boundary was an endorsement of the Monroe Doctrine as a whole. See Foster, *A Century of American Diplomacy*, p. 477; Wright, *Control of American Foreign Relations*, p. 283.

President alone. Most notable of all was the Alabama arbitration provided by the treaty of Washington, which had been negotiated by a commission to which the Senate had consented after it had rejected an earlier proposal to that end. Arbitration was used particularly in controversies with Great Britain, the only major Power with which we continued to have territorial contact. In settling controversies with Spain or Mexico, even those of a legal nature, the mailed fist was frequently used, overtly or covertly.

It may be said of this period that the idea of foreign relations changed from an emphasis on the maintenance of international law to the enforcement of national policy. American dealings were mostly concerned with Indian tribes, Mexico, Spain, Caribbean countries, China, and islands of the Pacific. These were not dangerous antagonists; it therefore seemed natural for Congress to think it could simply decide what it wanted to do, and expect the executive to do it with the army and navy if necessary. Even toward England this attitude frequently appeared, but it subsided before being forced to an issue.

The final period has witnessed the definite entrance of the United States into world politics with the acquisition of the Philippines, the assertion of a definite policy in the Far East, the insistence on dominating the isthmian canal and its approaches, and the participation in fact, if not always in theory, in international transactions of world importance. The result has been an increase in the opportunities for the exercise of presidential influence. Yet the attitude of Congress assumed during the preceding period has continued, and clashes between the executive and the Senate have been frequent, sometimes disastrous.

The Senate has often delayed treaties or attached reservations to them, and has defeated many which the President regarded as of major importance, with the result that the President has often resorted to executive agreements. The Roosevelt agreement for financial administration of Santo Domingo, and the Knox agreements of similar character in Nicaragua and Honduras were made after the Senate had indicated its disapproval of the policy involved. The Root-Takahira and the Lansing-Ishii agreements were also executive agreements, as was the "Gentlemen's Agree-

ment" in regard to Japanese immigration, though this latter was eventually terminated by Congress in 1924. An offset to this initiative by the President has been the tendency of Congress or the Senate to pass resolutions defining general policy on arbitration, disarmament, the Monroe Doctrine, etc. Sometimes Congress has even attempted to control policy in detail, as by restricting executive participation in international conferences, or by concretely defining American policy, as in the opium conferences. The Senate's right to share in the negotiation as well as in the ratification of treaties was expounded by the Democrats in connection with the Algeciras Conference, and by the Republicans in connection with the Versailles Treaty. Since the Senate's success in defeating the latter, it has become even more assertive, and the executive has displayed an unusual caution. The President has appointed Senators as negotiators, has respected Senate resolutions of instruction, has appointed only "unofficial observers" to international conferences unauthorized by Congress, and has bowed before Senate reservations to treaties.

In making decisions on national policy there have also been frequent clashes. The President has maintained his prerogative in the matter of recognition and the use of forces abroad for defensive purposes in the face of continued efforts at congressional interference expressed in congressional resolutions, hearings, and calls for documents on such subjects as Mexico, Haiti, Santo Domingo, Nicaragua, Ireland, Russia, China, and oil.

The President's policy has generally prevailed during the periods of American neutrality. In the first years of the World War, congressional resolutions calling for withdrawal of protection from Americans who travelled on armed merchant vessels and for an embargo on munitions shipments to belligerents were opposed by the President, and failed. A resolution favored by the President in 1915 for purchasing belligerent ships in American ports and another in 1917 for arming American merchant vessels against submarines also failed; nevertheless, the President initiated this latter policy, and a month later asked Congress to recognize the state of war which Germany had "thrust upon us." The President had resisted considerable popular and congressional pressure

to enter the war after the sinking of the Lusitania in 1915 and was reëlected on a "he kept us out of war" platform in 1916, but Congress immediately responded to his war message. It would appear that by this time both branches of the government had been convinced that war was necessary. During the war the President conducted policy with little opposition. Full coöperation with the Allies, intervention in Russia, recognition of new governments in central Europe and peace proposals were developed under his authority. As the enemy weakened, party opposition in Congress began to develop. The President's loss of the elections just before the armistice weakened his position at home and, upon his first return from the Peace Conference, the Senate's round robin opposing provisions in the League of Nations Covenant weakened it in Europe. Vigorous opposition to the Treaty by a small group in the Senate finally defeated it by seven votes.

Congressional initiative in foreign policy has sometimes been effective, as when Congress forced the Spanish War. In 1927 Congress passed a resolution for arbitration with Mexico which has contributed to the development of more friendly relations, but its recent attitude has not always been conciliatory; it has definitely taken to itself the control of the tariff and immigration, both of which had occasionally been objects of diplomatic negotiation, and in doing so has not hesitated to trample on the susceptibilities of other states.

The maintenance of international law has called for considerable legislation, especially for strengthening the neutrality laws, and Congress has responded when required, except in regard to the protection of resident aliens. Legislation authorizing the President to embargo arms shipments to American countries or to countries where we enjoy extraterritorial privileges, is partly expressive of the preservation of international law but has been used by Presidents as an instrument of policy in Mexico and, in conjunction with the other Treaty Powers, in China. The Senate has shown an increased inclination to insist on a voice on each individual submission of claims to arbitration. As John Bassett Moore has pointed out, the President is not so free today to settle claims by arbitration as he was a century and a quarter ago. The

so-called general arbitration treaties include in fact such extensive exceptions that they give little encouragement to the use of this method. This is true of The Hague conventions and the Root treaties of 1908. It is notable that on several occasions, especially the Maine affair, the Panama episode of 1903, the Canal tolls controversy, and the Mexican land and oil legislation, the United States has refused to arbitrate disputes when that course has been suggested by the other party.

It may be said that during this period the United States has more often than in the earlier periods approached international relations from the point of view of negotiation and international bargaining. She has been less legalistic than in the second period under the constitution and less dictatorial than in the third period, though tendencies in both of these directions persist. She has more often than before had to deal with powerful states, such as Great Britain, Germany, France, and Japan, and has usually sought to achieve her ends by compromise or bargaining. She has shown a greater inclination to participate officially or unofficially in general international conferences of a political character. In fact, though her participation in world politics has not been systematic or continuous, except in the New World, which she dominates, her voice has eventually been heard on most of the major world problems. Thus she spoke on the Far East at Peking (1900), Portsmouth (1905), and Washington (1922); on the Near East at Lausanne (1923); on Morocco at Algeciras (1906); on the World War settlement at Paris (1919); on European financial rehabilitation at London and Paris (1925); on the limitation of armaments at Washington (1922) and Geneva (1927); on the development of international law at The Hague (1899, 1907).

It is not surprising that the embarrassments of a deadlocking system of treaty making should be increasingly felt, and that special attention should be given to the improvement of the tools of diplomacy. The foreign service has been reorganized on an efficiency basis, and the State Department has been enlarged and divided into specialized divisions. It is also worth noticing that this period has witnessed a great increase in public interest in foreign

affairs and in the development of direct contact by many other departments of the government with foreign relations, in spite of consistent State Department efforts to centralize such contacts in its own hands in the interests of effective negotiation.

THE LAW OF THE CONSTITUTION

THE evolution of the system for conducting foreign relations has been traced through American history. Adaptations of the original system to special emergencies and to permanent changes in conditions have taken place in spite of the fact that its basic principles as established by the Constitution have remained unaltered. The need for further adaptation, either of the system or of the world in which it works, was never more marked than it is today. A number of tendencies toward change are active. Among them may be noted (1) the modification of legal powers, (2) the development of constitutional understandings, (3) the extra-governmental organization of public opinion, (4) the utilization of expert services, (5) the reorganization of the State Department, and (6) the development of permanent policies.[11] Which of these tendencies makes for desirable adaptations? What are their possibilities?

The spirit of American constitutionalism has been predominantly legalistic. With heroic faith, constitutional lawyers have persistently attempted to make the machine of state run smoothly by defining precisely the legal competence of each organ of government. This effort has been even less successful in the control of foreign affairs than it has elsewhere. The controversy begun by Hamilton and Madison in 1793 as to whether undefined powers in this field belonged inherently to the executive or the legislative branch of government was continued with the same inconclusiveness between Senators Spooner, Beveridge, and Bacon in reference to the Algeciras Conference in 1906, and is still going on.[12] In prac-

[11] Dealt with in Section I, Chapter 2, "Traditions."

[12] *Works of Alexander Hamilton* (J. C. Hamilton, ed.), VII, 76; *Writings of James Madison* (Gaillard Hunt, ed.), VI, 138; *Congressional Record*, 59th Congress, 1st sess. (vol. 40, pt. 2, pp. 1417 *et seq.*), essentials printed in Corwin, *The President's Control of Foreign Relations*, pp. 7, 28, 169-204. Apart from the arguments based on the inherently executive or legislative character of the conduct of

tice, the President has had a distinct advantage. He alone has immediate official contact with foreign governments, and can consequently take the initiative and need not be forced by Congress. The latter's powers in fact amount to suggestions which may or may not be followed, and to a veto on important decisions, exercised especially through the Senate's power over treaties and Congress's power over appropriations.

The President can in ordinary times do a great deal without giving Congress an opportunity to act, and in times of emergency Congress usually finds itself obliged to support the policies he has begun. Thus the President can initiate and negotiate all treaties through agents and instructions unknown to the Senate or Congress. He can make executive agreements on all matters within his independent power of enforcement without consulting the Senate at all. He can utilize the forces to repel invasion, enforce treaties and protect citizens abroad, thus practically committing the country to war. He is the representative authority of the United States, alone competent to correspond officially with foreign governments. He nominates and commissions ambassadors, ministers, and consuls, though he must get Senate consent to their appointment, and receives foreign ambassadors and ministers; he has thus the sole power to recognize foreign governments and states. The Presidents have also assumed power to recognize the existence of neutrality, or of peace upon the termination of war, though in the

foreign relations, arguments have been drawn from particular clauses of the Constitution. For instance, does Congress's power to declare war and to terminate all relations with a foreign country by navigation, commercial, and immigration legislation give it power to determine all lesser modifications of relations with a foreign state? Or does the President's sole power to receive foreign ministers and to send American ministers abroad, which makes him the sole authoritative ear and voice of the United States, give him power to determine all relations with foreign states, except where Congress has express power, when his oath of office obliges him to await and execute the decisions of Congress? Does "the power of the President by and with the advice and consent of the Senate to make treaties, provided two-thirds of the Senators present concur" give the Senate power to advise and consent by resolution to every step before, and during, as well as after, the negotiation? Or does it, considered in relation to the President's exclusive diplomatic powers, contemplate a separation of treaty making into two parts: negotiation, which is in the exclusive control of the President, and ratification, for which he must get the Senate's advice and consent? The arguments may be studied in many debates, but there is no consensus of opinion.

case of the termination of war with the Central Powers, President Harding followed the congressional resolution of July 2, 1921. Executive declarations and precedents have been the main factors in building up permanent foreign policies.

In spite of these extensive powers, the ability of a Senate minority to kill negotiated treaties has been an important element in the management of our foreign affairs, and it has become increasingly important since with more complex international relations, treaties have become not so much luxuries as necessities. When it was possible if inconvenient to get along without any treaties, the two-thirds rule was a security against precipitancy; but when, as in the case of a war or termination of a commercial convention with an important customer, it is necessary to make some treaty, minority rule is developed.

The Senate has exercised its power mainly in adherence to traditional policies, in the interest of its own congressional prerogatives, and in the interest of states' rights. Thus it has frequently made reservations insisting on the Monroe Doctrine and the policy against "entangling alliances," and has amended or rejected treaties which it thought ran counter to those policies. It has always approached multilateral treaties with great caution, generally delaying them for a long time, often appending reservations, and sometimes rejecting them altogether. It has been unwilling to delegate either to the President or to an international body the power to decide whether a particular dispute should be arbitrated, though it has consented to general submission of disputes to conciliation. It has been reluctant to annex territory or authorize protectorates and financial receiverships by treaty, and has rejected or discouraged treaties affecting the powers of Congress over the tariff, immigration, preparedness, and war making, though it has ratified a few tariff and immigration treaties, several guarantee treaties, treaties limiting the power to go to war, and treaties limiting armament. The same variation is observable in the treatment of treaties encroaching on the normal sphere of the states of the Union. Many treaties authorizing alien landholding or inheritance within the states have been approved, but some have been rejected.

It is probably in the development of international arbitration and participation in international organization that the President and Senate have differed most. The Senate's attitude has made progress in these matters exceedingly slow in spite of the efforts to expedite procedure by Presidents and Secretaries of State. It has resulted in the United States lagging behind the general world advance in these directions.

Irritation between the two departments has often resulted from differences on foreign policy. Presidents and Secretaries do not like to have a difficult negotiation frustrated by Senate veto. Washington once left the Senate with an oath after discussing a proposed negotiation with it. John Hay compared the Senate to the matador in a bull fight, with the treaty in the rôle of bull. Wilson went to a premature grave from Senate defeat of his peace plans. Of some 800 treaties negotiated by the executive from 1789 to 1928, 600 have actually come into force, over 40 have been rejected or indefinitely delayed by the Senate, about 40 have been so amended by the Senate that the President either refused or was unable to ratify them, 12 have been delayed by the Senate for periods of five to 20 years, 85 have come into effect with Senate amendments or reservations accepted by the other party, and some 30 have never been submitted to the Senate at all, having been withdrawn by the President before the Senate had acted or having fallen through because of action by the President or the other party to the treaty after the Senate had consented without qualification.[18]

The Senate's attitude has not only irritated the executive, it has also irritated foreign governments. Great Britain rejected with indignation the King-Hawkesbury treaty of 1803, the slave trade treaty of 1824 and the first Hay-Pauncefote treaty of 1900 after the Senate had amended them. The European opinion of the Treaty of Versailles débâcle in the United States is well known. Foreign states now recognize that they have no complaint under international law if the Senate rejects or amends a treaty. The treaty power of the United States is clearly set forth in the Con-

[18] These figures have been compiled by Royden Dangerfield and are analyzed in his thesis on *The Senate's Influence on the Conduct of American Foreign Relations*, University of Chicago, 1918.

stitution, and foreign governments cannot hold the Senate bound by presidential signature alone. Their objection in recent years has been rather on the score of discourtesy. In 1804, objection was made on principle. Lord Harrowby, the British Foreign Minister, is reported to have characterized the Senate practice of "ratifying treaties, with exceptions to parts of them" as "a practice which is new, unauthorized and not to be sanctioned." A century later, Lord Lansdowne complained of amendments to the Hay-Pauncefote treaty that "His Majesty's Government find themselves confronted with a proposal communicated to them by the United States Government, without any previous attempt to ascertain their views, for the abrogation of the Clayton-Bulwer treaty."[14] Though disliking it, foreign governments now seldom complain of the Senate's practice which, according to one writer, makes "diplomatic affairs with the United States like a two volume novel in which the hero marries the heroine at the end of the first volume and divorces her triumphantly at the end of the second."[15] The foreign press, in references to the Kellogg renunciation of war proposal, wonders superciliously "whether the readiness of the United States Government to sign such a treaty commits the American people in the same degree as other Powers would be committed by the signature of their governments."[16]

The House of Representatives has sometimes displayed a willingness to support the President against the Senate in treaty making. By a large majority it urged speedy ratification of the World Court Protocol. But it has continued to deny the right of the President and Senate to limit its discretion in respect of appropriations, commercial legislation, and war making by concluding a treaty. Clearly, if the House objection is valid, it would apply equally to all the delegated powers of Congress, which, as Calhoun explained in 1844, would mean that the exercise of the treaty power "had been one continual series of habitual and uninterrupted infringements of the Constitution."

This opinion was in fact opposed by Washington in refusing to

[14] Wright, *Control of American Foreign Relations,* p. 44.
[15] Lippmann, *Foreign Affairs* (N. Y.), January, 1926.
[16] London *Times,* April 14, 1928.

transmit to the House papers relating to the negotiation of the Jay treaty. It has never been formally admitted by either President or Senate, and the House has not in fact acted on it, though the attitude of the House may have deterred the President and Senate from making treaties from fear that the House would block their execution. Such action by the House would undoubtedly give ground for international complaint. "The making of a treaty," says Mr. Root, "is a solemn assurance to all nations that the subject matter is within the treaty making power. A refusal of Congress to pass the necessary resolution would simply be a breach of the treaty."

It has been suggested that in spite of their legal rights foreign governments should appreciate the position of the House and assume a tolerant attitude. Every nation, says Justice McLean, "may be presumed to know that, so far as the treaty stipulates to pay money, the legislative sanction is required. And in such a case the representatives of the people and the states exercise their own judgment in granting or withholding the money." The United States herself did not observe such a tolerant attitude when the French Parliament failed to make an appropriation in fulfilment of the claims settlement convention of 1831; in fact, President Jackson threatened reprisals. It would clearly be unwise to rely on the observance of such an understanding by others. As Mr. Hughes has pointed out, "it is a very serious matter for the treaty making Power to enter into an engagement calling for action by Congress unless there is every reason to believe that Congress will act accordingly."

In addition to their attitude on treaties, Congress and the Senate have sometimes objected to presidential war making, recognition and participation in international conferences, and have attempted, especially since the war, to control the President's discretion in such matters, with the result, according to Mr. Wickersham, that "the conduct of foreign relations will be almost impossible of satisfactory direction if the Senate shall continue in future to interfere with and hamper the executive as it has done the last four years."[17]

[17] *Foreign Affairs* (N. Y.), December, 1923, p. 187.

Thus, in spite of a multiplicity of precedents and juristic efforts at definition, important differences still exist between the President, the Senate, and the House with respect to their constitutional powers in foreign affairs. Occasions for friction have increased with the advance in treaty making from an average of one a year in the eighteenth century to about fifteen a year in the twentieth, in addition to a parallel augmentation of foreign transactions of all kinds. The seriousness of the situation is increased by the apparent rigidity of the Senate's attitude. Charles Cheney Hyde, former solicitor of the Department of State, believes that "Any constructive proposal designed to make a successful appeal to those possessed of the treaty-making power of the United States must reckon with the following conditions: first, that this nation has a passion for independence; secondly, that it will not agree to be drawn into a war between other states; and, thirdly, that it will not delegate to any outside body the right to determine what is the nature of a controversy or how it ought to be adjusted. These are facts."[18] From this Professor Hyde assumes that the United States must limit her participation in international organization accordingly. Others have argued from the same premises that the Constitution must be amended to eliminate the two-thirds rule in the Senate.

Substitution of a majority of both houses for two-thirds of the Senate in treaty ratification would accord with the practice of most continental European governments. It would obviate the complaints of the House and eliminate the ever-present possibility of inability to execute a treaty, valid at international law, because of the refusal of the House to agree to appropriations or necessary legislation. This would seem reasonable, in view of the constitutional provision that treaties are the supreme law of the land, and on this score was suggested in the Federal convention of 1787. It would also render deadlocks less frequent, because one political party is much more likely to control a majority of both houses than two-thirds of the Senate. The main objection of the fathers to submission to the House was based on the necessity of secrecy,

[18] *American Journal of International Law*, April, 1928.

but secrecy has frequently been ignored by the Senate in recent years. Their insistence on the two-thirds rule in the Senate was in part to prevent the sacrifice of any section of the country—sectional interest in the northeast fisheries and in Mississippi navigation was especially in mind—but today this argument would apply with even more force to legislation. Sectionalism may, in fact, create bitter feeling through the power of a minority to prevent treaties or legislation in the national interest. The state sentiment of which the Senate has been deemed the special protector would be urged against the change, as also would the argument that permanent commitments binding governments of both parties in the future should not be entered into without the consent of a substantial number of both parties. Yet the principle of continuity of policy preserved by the State Department would afford some security against partisan treaties. In any case, the desirability of preventing deadlocks when treaties are as necessary as legislation should overrule these objections.

The effect of the change would be to make the treaty-making power the same as the legislative power, except that the President would have the sole initiative and, retaining the ultimate decision on ratification, would have an absolute veto. Samuel W. McCall, former representative and Governor of Massachusetts, has vigorously urged this change, and it has been endorsed by John W. Davis, who suggests that "it contributed neither to national influence or prestige or safety that the process of ratifying or rejecting treaties should degenerate into an effort to discover some qualifying formula acceptable to a minority. There is grave danger in forgetting that, whether in matters domestic or foreign, the business of government is to govern."[19]

There is, however, an insuperable objection. Unless two-thirds of the state legislatures should decide to call an amending convention, it would take two-thirds of the Senate to propose such an amendment and it is not conceivable that that body would ever propose the reduction of its unique prerogative.

[19] Quoted by Wickersham, *Foreign Affairs* (N. Y.), December, 1923, p. 190.

THE DEVELOPMENT OF CONSTITUTIONAL UNDERSTANDINGS

LEGAL definition has not solved the problem of controlling foreign relations in the United States. Formal amendment of the Constitution is difficult and its results uncertain. Attention has consequently been turning to the possibility of developing less formal and more flexible standards of action. American students have asked whether it may not be possible for conventions and understandings to develop among the organs of the United States Government as they have developed in England.

"Political constitutions in which different bodies share the supreme power are only enabled to exist by the forbearance of those among whom this power is distributed." This generalization by Lord John Russell, which has been more recognized in England than in the United States, has been developed in detail by Professor A. V. Dicey, who distinguishes the conventions from the law of the British Constitution.[20] Russell explains how the Crown exercises its prerogative and the Houses of Parliament their privileges. He believes that these conventions in England have grown up so as to assure the ultimate triumph of the will of the political sovereign, that is, the majority of the voters for members of the House of Commons. In the eighteenth century the British Constitution, though perhaps organized to preserve liberty, as Montesquieu, DeLolme, and Blackstone thought, was a jarring and jangling instrument. There was little smoothness in the relations of George III with his ministers and his parliaments. Perhaps the Constitution of the United States is now in that condition. Perhaps the law of the Constitution will work if better constitutional manners are adopted by the departments at Washington. Though Washington society may have outgrown Jefferson's pell-mell banquet and Jackson's Peggy O'Neil cotillion, perhaps Washington politics has not.

Among these suggested understandings is that of prior consultation between the executive and Congress before either takes a step which would eventually require coöperation by the other.

[20] *The Law of the Constitution*, chap. 14.

"Whenever," reported the Senate Foreign Relations Committee in 1898, "affirmative action of either the executive or the legislative branch of the government may involve a call upon the assistance of the other, the branch about to take action should, if possible, first obtain indications of the other's desires."[21]

The early efforts of Presidents to consult the Senate as a body during the progress of treaty negotiations proved a failure; subsequently, consultation has been conducted through individual Senators or the Senate Committee on Foreign Relations, though formal request for Senate advice has been made by written message of the President during the course of about seventeen negotiations, seven of them before 1794. The Jay treaty was in fact initiated through the informal activity of a small group of Federalist Senators, but the Senate itself was not formally committed. In the succeeding years, *ad hoc* committees of the Senate frequently consulted with the President informally. If they attempted to meet him formally and of right they were likely to be rebuffed, as was the case when a committee was dispatched by the Senate to consult President Madison in regard to the appointment of a minister to Sweden. After the War of 1812 these *ad hoc* committees, which in fact frequently contained the same personnel, became a permanent committee on foreign affairs. This body has sometimes met the President during the course of negotiations, as it did when President Wilson first returned from Paris in 1919.

Leading members of the Senate have often consulted individually with the President or Secretary of State. Senator Bacon of Georgia once referred from his own experience to the "frequent practice of Secretary Hay, not simply after a proposed treaty had been negotiated, but before he had ever conferred with the representatives of the foreign Power, to seek to have conferences with Senators to know what they thought of such and such a proposition; and if the subject matter was a proper matter for negotiation, what Senators thought as to certain provisions; and he advised with them as to what provisions should be incorporated." Senator Bacon referred particularly to the Alaskan boundary and the general arbitration treaties; on the latter he

[21] Senate Document 56, 54th Congress, 2d Session, p. 5.

thought the Secretary had conferred with every Senator either in writing or in person.[22] Occasionally, Senators have taken a considerable initiative in treaty making. Thus Senator Borah, who has introduced several resolutions on the outlawry of war, is said to have exercised an important influence on the opening of negotiations with France for a multilateral treaty renouncing war as an instrument of policy.

Sometimes the President has appointed important Senators as treaty negotiators to assure favorable reception of the instrument in the Senate. This practice was followed in connection with the mission which negotiated the treaty ending the Spanish War and in connection with the appointment of the delegation to the Washington Conference of 1922. It was criticized by Senator Hoar of Massachusetts as an unconstitutional effort to deprive the Senate of its discretion,[23] but in 1923 Mr. Wickersham thought that recent experience indicated

> that the only practical means of securing any treaty or international agreement between the United States and a foreign nation under present conditions is through a conference or commission in which one or more Senators, preferably one from each political party, shall be members, which shall meet in Washington, keeping closely in touch with other influential members of the Senate, and which shall not commit itself to any agreement until it has been canvassed with enough members of the Senate to make its approval reasonably certain.

This appears to describe with accuracy the process by which American approval and ratification of the Washington Conference treaties were obtained.

Informal relations of a similar character have existed between the executive and the House of Representatives on foreign matters within the latter's purview. Representatives Rogers, Porter, and Burton have kept in close contact with the State Department in their respective tasks of preparing the acts reorganizing the foreign and home services of the Department and the American case

[22] *Congressional Record,* June 23, 1906, XL, 2130.

[23] For further reference to this point, *cf.* Section III, "The United States and the League of Nations," p. 251.

at the opium and arms traffic conferences. The latter two Representatives, in fact, respectively headed the American missions to these conferences.

A regularization of contacts between the executive and legislature has been suggested through the organization of a special committee or cabinet on foreign affairs containing the President, Secretary of State, and leading members of the Senate Committee of Foreign Relations and the House Committee on Foreign Affairs. Perhaps Secretaries of other departments interested in the problem at issue could be added on occasion, and permanent officials of the State Department might be present at the meetings of this proposed special committee. A modified form of this suggestion has been incorporated in Representative Porter's bill for reorganizing the Department of State. An Advisory Council is proposed in the Department of State composed of the Secretary of State, the Under Secretaries and Assistant Secretaries of State to meet on call of the Secretary and to "consider questions relating to the foreign affairs of the United States." The Secretary is further authorized to invite the chairmen and ranking minority members of the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House to participate in such meetings.

Another proposal for direct contact is that the right of debate in Congress be extended to members of the Cabinet. Continuous opportunity to present the executive's policy and to answer questions on foreign relations would, it is hoped, disarm opposition before it had crystallized, or modify executive policy in response to an insistent congressional attitude at an early stage of proceedings. Such a modification of practice would seem entirely possible within the Constitution as it is, and, if it worked successfully, would almost inevitably lead to responsible government. But unless the cabinet members came gradually to recognize that, when Congress was determined, they must respond to it rather than to the President, friction might be increased rather than diminished. The tradition of separation of powers and presidential independence and control of the Cabinet is so firmly rooted that the initial operation of such a system would probably be stormy;

at the same time, through its power of the purse, Congress might eventually be successful in imposing its will, as did the Parliament of England, provided the House and Senate could maintain a united front. But that is a big proviso; the Senate is jealous of its singular prerogative.

A second constitutional understanding which has been generally observed requires that all departments of the government coöperate to give effect to responsibilities existing under general international law and under international commitments validly entered into. Doubtless it is desirable that if action by the House or states is necessary, they should be consulted before a treaty is made; but if they are not so consulted, they ought to act in fulfilment of the national obligation. In fact, the House has quite generally observed this convention. It has enacted a mass of legislation to assure fulfilment of the national duties under general international law and has always appropriated or legislated, although sometimes under protest, as required by treaty. States have not been so mindful of international responsibilities, and notorious cases exist where the failure of state courts and police to provide adequate protection for aliens has involved the United States in diplomatic controversy and pecuniary obligations. A reciprocal understanding would doubtless require the President to do his best by diplomacy or even force to make effective a national policy properly enacted by Congress. He has generally done so, but always with the reservation that he alone can judge of the expediency of action at a given time, and that resolutions dealing only with foreign policy and not clearly within the constitutional powers of Congress can be ignored.

A final understanding should require that where two organs of the government have concurrent powers, the commitments of one should preclude the other from acting contrariwise. Most treaties encroach upon the delegated powers of Congress, but Congress should refrain from subsequently violating them; if it does so, the courts are obliged under national law to sustain the legislation.[24]

[24] Since treaties and acts of Congress are both declared the supreme law of the land by Art. 6 of the Constitution, the courts have held the most recent to prevail as municipal law: Head Money Cases, 112 U. S. 580; Chinese Exclusion Cases.

Since the Senate is a constituent both of Congress and of the treaty power, legislation adverse to treaties is not likely. In many cases Congress has expressly excepted existing treaty rights from general legislation, but it did not do so in the case of the Chinese exclusion legislation of 1888. While the immigration act of 1924 clearly ran counter to the "Gentlemen's Agreement" with Japan, it is not so clear that it violated any treaty right of Japan, though the Japanese Government argued that the principle of the "Gentlemen's Agreement" had been incorporated by reference in the commercial treaty of 1911.

State legislation is of course void if contrary to ratified treaties, but sometimes informal contact with state authorities has been considered desirable, as in the case of President Roosevelt's discussion with the Mayor of San Francisco on the Japanese school question in 1906 and Secretary Bryan's visit to the Governor of California on the Japanese land question in 1913.

The President should doubtless recognize reciprocal understanding and refrain from negotiating in a contrary sense when Congress has properly asserted a policy by legislation. There seem to be few if any cases of treaties contrary to previous legislation of Congress; the courts have held that in such a case the treaty would be law. The conventional respect which the treaty power should pay to the normal policy of the states is more doubtful. It is clear in law that state legislation in pursuance of their reserved powers constitutes no bar to treaty making, but in a number of instances the executive has declined to negotiate on subjects which by established practice are within the states' domain.[25]

The growth of understandings of the kind here considered is of undoubted importance, yet it may be questioned whether they can produce really smooth action under a system of separation of powers. British constitutional conventions grew up after the House of Commons had won an acknowledged position of dominance, when it was willing to observe conventional limitations upon the exercise of its sovereignty; because of their eventual subordination, the Crown and Ministry had an obvious interest in observ-

[25] Hayden, *American Historical Review*, "The States' Right Doctrine and the Treaty Making Power," April, 1917, p. 566.

ing this position of the House. In the United States, however, the theory of equality between the President and Congress is as strong as ever because it is firmly buttressed by the dogma of separation of powers supported by the written Constitution and by the sanctions of the Supreme Court. Neither President nor Congress is ready to respect constitutional understandings when to do so might create a precedent against possession of the power in question. The alertness of each in defense of prerogative militates against the growth of understandings. "So-called constitutional understandings," writes John Bassett Moore, "are logically much more of the essence of things under the British system than under the American system." Thus while we may expect constitutional understandings and informal contacts to render the American system more smooth-working in normal circumstances, we cannot rely on them to prevent deadlocks in crises in which major differences of opinion exist.

EXTRA-GOVERNMENTAL ORGANIZATION OF PUBLIC OPINION

American constitutional theory is based on the limitation of the power of all governmental organs through judicially enforced constitutional prescriptions and political checks and balances. It does not deny that somewhere eventual plenitude of power within the limits of international law is in existence. This plenitude of power it ascribes to the people. "Although the nation is sovereign," writes David Jayne Hill, "the government is not. Complete sovereignty resides in the people as a whole, and not in any or all of the public officers." For even though the people can act in a final sense only through the complicated amending process, they are periodically given the opportunity to elect the executive and both houses of Congress, to organize political parties and voluntary associations, and to make known their opinions through petition and the press.

Thus it is entirely in accord with American theory that unity in foreign policy should be achieved through submission of all political organs, President, Senate, and House, to a united public opinion except in so far as states' rights and guaranteed private

rights expressly prevent such submission. In foreign affairs these latter constitutional limitations are not often important, and a united policy has been achieved by the expression of public opinion. In the winter and spring of 1927 a campaign was waged in the press, through numerous organizations and by private correspondence with Congressmen and the President looking to the prevention of intervention in Mexico and of a reprisals policy in China after the Nanking shootings. These peaceful policies prevailed upon the executive, after the Senate had passed a resolution favoring arbitration with Mexico and the House had declared for negotiation with China. The importance of popular agitation in bringing about this result is difficult to assess. Certain special interests doubtless wanted intervention in both cases, but it is not clear that the government ever had an aggressive design. Apart from active efforts in emergencies, public opinion may act continuously by furnishing pressure or restraint on official conduct; but whether it is regarded in an active or a passive rôle, it labors under great difficulties in foreign affairs, and its influence in the United States is probably less than is often supposed. "The fact is," writes Dewitt Poole,

> that on the great bulk of international problems, especially in their initial stages, there can be no public opinion at all. But there emerge from these problems from time to time broad and comparatively simple issues which the people must decide and with respect to which, it has been found, their fundamental common sense asserts itself as it has proved to do with respect to their domestic concerns. Those who are charged with the conduct of the foreign relations of a democracy are deprived in large part of the current guidance of public opinion. They must proceed with their daily work in accordance with their best judgment and in the light of tradition and precedent, taking care to direct public attention to important matters as they develop and to supply the data about which public opinion may crystallize.[26]

Another difficulty in the way of popular guidance of foreign policy is presented by the inaccessible character of the information upon which foreign policy must be based. How can the public acquire such facts and background on the problem as would

[26] *The Conduct of Foreign Relations*, p. 142.

entitle its opinion to consideration? International incidents may arise anywhere in the world and an intelligent treatment requires concrete knowledge of the situation in that locality. The average citizen can hardly have this information and in his busy life he is not likely to look it up after the incident has arisen. Even if he is inclined to do so, where can he look for the facts, and what standards of judgment shall he apply? Unless the public bases its opinions upon workable standards and accurate information, its influence will be unfortunate, except in the broadest matters calling merely for ordinary honesty and understanding of human nature.

Furthermore, the difficulty of supplying these conditions renders the public peculiarly susceptible in foreign affairs to subversive influences. The yellow journal, the armament manufacturer, and the concession seeker may find it easier to propagandize the public than to corrupt the government. The danger of foreign influence in popularly controlled diplomacy has been especially emphasized. With the intensification of the interpenetration of national interests and the development of a ubiquitous press, it is useless to hope for the elimination of foreign influence in the formation of public opinion. It has never been entirely absent. The influence of the French minister in the Continental Congress has been referred to. Washington warned against foreign influence in his farewell address, but it was none the less important in the following election. In time of war, foreign appeals to public opinion have been especially important. Propaganda campaigns during the World War in both neutral and enemy countries were second if not equal in importance to the military and economic campaigns. In spite of President Wilson's appeal for "neutrality of thought," Americans were early persuaded to partisanship by one side or the other. After the American entry into the war, the United States took the lead in propaganda, and made direct and successful appeals to public opinion in the enemy countries over the heads of their governments; peace suggestions, in fact, began by public addresses of statesmen in each country intended for consumption by the enemy.

Public opinion is, however, wary of foreign influence, and such appeals, if lacking in dexterity, may prove boomerangs. Citizen

Genêt's appeals to the people in 1793 before his official reception, reacted against him, as did President Wilson's appeal to the Italians on the Fiume question in 1919. But moderate presentation of the foreign attitude in pending international questions seems a necessary condition of democracy in international affairs. A people can hardly judge soundly of its own foreign policy unless it knows how the foreign nations affected will react to the various alternatives. The advantage of having an international forum within which such opinions may be authoritatively expressed seems obvious.

The danger that the people may be ignorant of the facts, lacking in standards of judgment and propagandized by subversive influences, may account in part for the proverbial efforts of foreign offices to insulate themselves from the public. "It sometimes happens," writes Mr. Root,

> that governments are driven into war against their will by the pressure of strong popular feeling. It is not uncommon to see two governments striving in the most conciliatory and patient way to settle some matter of difference peaceably, while a large part of the people in both countries maintain an uncompromising and belligerent attitude, insisting upon the extreme and uttermost view of their own rights in a way which, if it were to control national actions, would render peaceable settlement impossible.[27]

This is not always true of peoples—Bryce thinks their judgment has usually been sound—nor are governments always guided by the desire for peace. "When foreign affairs were ruled by autocracies or oligarchies," as Mr. Root elsewhere says, "the danger of war was in sinister purpose. When foreign affairs are ruled by democracies the danger of war will be in mistaken beliefs."[28]

The change, Mr. Root thinks, is one for congratulation. You cannot prevent a king from having a bad heart, but you can prevent a people from having erroneous opinions. It remains to be seen whether this hypothesis will stand the test of experience, but the fact is that the public can no longer be kept from influencing foreign affairs. In the early decades of the republic the leaders of

[27] *American Journal of International Law*, 1907, I, 1.
[28] *Foreign Affairs* (N. Y.), September, 1922.

opinion gave much thought to foreign affairs, but with the rise of the west this interest flagged; even today the average American, especially in the middle west, probably thinks much less about international affairs than would a person of corresponding position in any European country. "This good-natured indifference, except in grave emergencies," says Mr. Hughes, "our geographical position, the extent of the country, and the wide range of domestic opportunity, have developed a sense of self-sufficiency." Popular interest, however, will continue to grow with the rapid development of American financial, trade, and cultural contacts everywhere, and with popular interest the demand for popular control will develop.

"A democracy which undertakes to control its own foreign relations," says Mr. Root, "ought to know something about the subject." General education in this field is both difficult and important, but in the United States the post-war years have witnessed a considerable response to this need. University courses dealing with international affairs have trebled in number since the war; there has been an outpouring of books on foreign relations, diplomatic history, and international law; periodicals such as *Foreign Affairs*, *Current History*, and the *American Journal of International Law*, and the information service of the Foreign Policy Association are supplying materials for a sound background; and associations and organizations devoted to an impartial discussion of international relations and the supplying of authentic information have sprung up in almost every great city. As yet, however, these agencies for furnishing adequate standards of judgment and accurate current information have not penetrated very far down in society.

Elementary education and the press are still almost the only reliance of the masses of voters. Both are inadequate. Elementary education can pay but slight attention to international affairs, and that little is likely to be biased by local political influences. It is of the utmost importance that the facts in school textbooks should be accurate and that their selection and the standards of judgment they suggest should be adapted to the present conditions of the world. Efforts to make them tools of national preju-

dices or perpetuators of unhistoric sentimental traditions can only have the effect of unfitting the rising generation for an adequate control of policy.

Even more important is the press. Its tendency to be sensational, jingoistic, and inaccurate has long been recognized. It lives by its circulation, and, as Bryce points out, "praise of one's country is always agreeable, but dispraise of other countries is more welcome than praise of other countries." The sensational press, for instance, undoubtedly had an influence in bringing on the Spanish War in 1898. But the creation of a professional spirit among journalists, the maintenance by the leading papers of competent correspondents abroad, and gradual education of the public to an interest in accurate information unadorned by misleading headlines and editorial adjectives, are factors making for improvement.

The government is rising to the need of educating the public. The Senate often debates treaties in public. The secrecy which seemed so essential to Washington and Jay in the 1790's and even to Senator Spooner in 1906 is found to be less often necessary. The Department of State has a division of current information which prepares press releases and arranges press interviews with the Secretary of State on current problems. A request of the conference of teachers of international law and relations which met in Washington in the spring of 1928 that current information be issued in serial form and that reports and documents as far as possible be made readily accessible to teachers and students met with a favorable response. With appropriations necessary to supply increased editorial, printing, and distributing services, the Department would provide much more material than is now possible in order to keep the public informed.

There are of course limits to publicity. President Wilson explained that "open covenants openly arrived at" did not exclude "private discussions of delicate matters, but that no secret agreements should be entered into, and that all international relations, when fixed, should be open, above board, and explicit." The publication of documents dealing with pending controversies might make compromise or adjustment more difficult. Notes sent in con-

fidence by foreign governments cannot be published without their consent. Dispatches and advice from officials dealing with foreign events and personalities might seriously impair the usefulness of those officials if published while they remained in service. Instructions to treaty negotiators clearly cannot be disclosed in full to the other party if there is hope of obtaining a bargain more favorable than the minimum acceptable.

But it is generally agreed that the public is entitled as soon as possible to the texts of completed agreements and enough of the preliminary documents to understand them. The publication of treaties is required by law in the United States, and these are now made available immediately after negotiation. The chief of the division of publications of the State Department is charged with preparing *Papers Relating to the Foreign Relations of the United States* as soon as practicable after the close of each year.[29] This series began in 1862, and is expected to include all important correspondence relating to major policies, decisions, as well as, according to a ruling of March, 1925, matters of importance to the science of international law and to treaty negotiations. Unfortunately, this publication fell ten years in arrear during the war, but it is to be brought down to at least five years of date. To an increasing extent the Department publishes documents of current interest on its own initiative or in response to congressional resolutions. Documents dealing with Panama Canal controversies, Haiti, and Santo Domingo, Mexico, Russia, Palestine, and oil negotiations have been published in recent years either by the Department or by Congress. More of such material would assist in creating a "well informed and intelligent public opinion" which the Department officially recognizes is "of the utmost importance for the conduct of foreign relations."[30]

Even if the public is educated and informed, it cannot act unless it is organized. Opinion must be crystallized and presented. The legislative body is the natural place for this, but in the United States Congress cannot act directly on the executive as it can in

[29] The selection is made by Joseph V. Fuller, Special Assistant in the Division of Publications.

[30] Memorandum prepared by Tyler Dennett, editor for the State Department, and approved by Secretary Kellogg, March 26, 1925.

Europe. The need of public opinion in the United States is to influence both Congress and the executive simultaneously in order that they may act together.

Elections come infrequently, and an issue of foreign policy is seldom presented unequivocally to the electorate. Whether the election of 1920 should be interpreted favorably to the pro-League or the anti-League republicans is still obscure, and probably it always will be. In all countries politicians try to keep foreign policy out of elections. The national weakness which results from developing sharp internal dissension on subjects of foreign negotiation is too obvious to need comment. Each party hopes eventually to obtain power, and fully realizes that its foreign policy must in fact be shaped by the turn of events and fundamental conditions in even larger measure than by election results. President Wilson did not hesitate to ignore the canal tolls plank in the platform on which he was elected in 1912, after a study of the situation had disclosed the strength of the British claim and the consequences of neglecting it. In the United States foreign policy was prominent in the campaign of 1796 when the country was divided between the pro-French and pro-British parties, in the congressional election of 1810 when the "War Hawks" won out, in 1844 when "fifty-four forty or fight" played a part, in 1900 when imperialism was one of several issues, in 1916 when Wilson was elected because "he kept us out of war," and in 1920 when the League of Nations was discussed.[31] But party platforms were usually equivocal on these issues, results were often inconclusive, and the successful party frequently did the opposite from what was expected. Adams started a French war, then stopped it, Polk compromised on Oregon, and Wilson went to war against Germany—these are a few examples to show that the result of submitting foreign policy to elections has not been satisfactory. In cases in which elections can be called promptly on a current issue, as in England, public opinion can express itself through them on policies, but where they are at fixed intervals and numerous issues are involved, as in the United States, the vote is invariably for party or persons and not for policies.

[31] For a discussion of the international issue in this election, see Section III, Chapter 1, "The United States and the League of Nations," pp. 231 ff.

Party organizations are steadily active and may seem more useful than elections as organs for expressing public opinion on foreign policy. Parties usually strive to bring about unity between the executive and the houses of Congress, and if a single party controls all three branches this can often be done in domestic concerns; but the two-thirds rule on treaties is an obstacle in foreign affairs, for the minority party must also be brought in line. Furthermore, because of the different terms of President, House, and Senate, there is no assurance that they will all be controlled by the same party. They often are not so controlled, in which case another occasion for deadlock exists. Party policy is also in large measure shaped by the politicians, who, for reasons which have been stated generally steer clear of foreign policy. For the same reason it is always doubtful how far party policy represents the views of the rank and file of the party.

Thus in the United States public opinion on foreign affairs cannot operate effectively through legislatures, elections, or parties In this respect the cabinet government of England has a great advantage; there a widespread public sentiment can with considerable speed overturn a government through pressure on Parliament to force an election; government is itself the organization of public opinion. In the United States public opinion, if it is to be effective, must organize itself outside of the government. The result has been the growth of numerous voluntary associations, many of them with large memberships, some educational and informational, some propagandistic. Through these, public opinion is organized, but its organization is less systematic, less effective, and less responsible than that organized in the government itself.

It is difficult to ascertain the influences back of these voluntary organizations. Are they special pleaders, professional propagandists, or do they represent a substantial informed opinion? To what extent are they the tools of foreign influences? The disinterested effort to create an intelligent opinion of such organizations as the Council on Foreign Relations, the Chicago Council on Foreign Relations, the Foreign Policy Association in New York City with branches in nine cities, the Institute of Pacific Relations, the League of Women Voters, is important. Many of

the peace foundations engage in a strictly educational work, and efforts were begun at the centennial of the American Peace Society in Cleveland to organize almost a hundred subsidiary societies. Military, naval, and hereditary patriotic societies have been equally diligent in organization. There are also business and professional associations like the chambers of commerce, labor unions, academic and learned societies, and bar associations, all of which occasionally pass resolutions on foreign questions. There are numerous semi-social bodies—Rotary and Kiwanis clubs, women's clubs, lodges, organizations of foreign origin groups. Finally, there are special interest groups, armament makers, oil producers, sugar growers, manufacturers of different commodities, importers, exporters, shippers, bankers, missionaries, many of which are organized and some of which maintain regular lobbies in Washington. It is the consensus of all such groups and interests which makes public opinion, but with their diffuse organization, such a consensus is difficult to determine. Further development of extra-governmental organs of a responsible character and recognized influence may furnish the only means of assuring genuine government by opinion in the United States.

The precise form which such organization will take cannot be predicted, but it seems probable that there will be a steady coördination of effort in this direction. Its importance was emphasized by Mr. Wickersham in 1923:

> The fact is that the treaty making machinery of the United States has become so complicated as to be almost unworkable. Only by the exercise of great powers of conciliation or of domination by the President, or by awakening and directing upon the Senate a vigorous public opinion, can any progress be made in international relations. A body of 96 men of such diverse characteristics and opinions as the members of the Senate is almost hopeless as an executive force. But it is ideal for purposes of obstruction. If the United States is to move forward in helpful coöperation with the other nations of the world towards the attainment of international peace, it will only be through the expression of a widespread and strongly expressed public opinion, which the Senate may apprehend is to be translated into votes.[82]

[82] *Foreign Affairs* (N. Y.), December, 1923.

UTILIZATION OF EXPERT SERVICES

UNDER the most favorable circumstances, public opinion can guide foreign policy only with respect to broad principles and concrete decisions of major importance. Most decisions in foreign, as in domestic, administration will always have to be made by officials who are in direct contact with situations. Routine decisions made from day to day have a cumulative importance in shaping the general direction of policy, though few problems in a foreign office under present conditions of world organization are routine in the sense that they reproduce circumstances previously acted upon. If ordinary decisions are made with understanding and foresight, crises will be avoided. The more able the activity of a foreign office, the fewer political issues are presented for decision; it follows that its best work is least known.

Even when crises exciting public attention arise, the advice of officials is likely to be followed by political authorities. Frequently a clear presentation of the situation by informed officials points the wise path so clearly that political differences can hardly develop. Thus the officials directly concerned with the conduct of foreign affairs may be, and usually are, of great influence, and their character and training are of corresponding importance.

Such officials are often thought of in two classes—those who advise or decide on "high policy," and those who investigate or administer. Poole estimates that there are seldom more than twenty persons in the first class in a modern state, say, fifteen at home, including the chief of state, prime minister, foreign minister, leading foreign office officials, a few other cabinet officers and a few parliamentary leaders. Abroad, he would admit about five heads of the important embassies. Among the fifty states there are therefore about a thousand individuals exercising a direct and continuous influence on the course of foreign relations in time of peace, and only about a hundred among the five Great Powers, which alone affect "high policy" in the narrow sense. He points out that today these are drawn from statesmen and politicians rather than from career diplomats.

The officials of the second class, those who supply information and carry out policy, are more numerous. They are distributed

among the fifty foreign offices and in diplomatic missions and consulates, to which must be added the increasing number of agencies established by departments of commerce, agriculture, etc., and by international organizations. These officials in the main are career diplomats and consuls.

There is perhaps a danger in emphasizing the distinction between these two classes. Policy differs from administration only in degree. A hundred men do not run the world except in a limited sense; even the entire body of persons with direct contact in international affairs, perhaps some thirty thousand individuals, do not run the world; they respond in large measure to the opinions and interests of much more numerous groups in the countries for which they act.

Policy differs from administration in that the sources of judgment and decision are less precise, but legal principles and tradition impose limitations upon decision in both cases. Public opinion also limits the statesman; it limits the administrator to a less extent because administration is more limited by precise statutes, and regulations and instructions are more limited than policy formation. Nevertheless, when all the factors are weighed, even in the so-called formulation of policy, there frequently remains but meager opportunity for the exercise of personal judgment. Yet even in the most detailed administration the element of personal judgment is not entirely eliminated. The difference is one of degree, and statesmen have thus more choice of alternatives than administrators.

Yet modern conditions are decreasing the range of choice for all officials having to do with foreign relations, in foreign offices and field services alike. The freedom of field services is being limited by the increased speed of communications through the development of the telegraph and telephone, which have greatly centralized policy formulation, and officials abroad are therefore under much more precise instructions today than they were in the days when these instructions had to be carried exclusively by couriers and the mails. Parallel with the centralization of the foreign office service has been the development of foreign contacts by other departments. Thus in the United States, the Secretary of State may find his freedom

limited by the views of the Secretaries of Commerce, Treasury, Navy, and others. More and more matters have to be decided by the President with his cabinet, and the growth in influence of public opinion means that matters of major importance can no longer be freely decided even by the supreme executive authority, with the result that the latter often has to bow in matters of public interest to the legislative body or to unofficially organized public opinion.

In addition to this tendency for responsibility to be pushed back to the people is the mechanizing effect of an increase in the mass of business. The result of this increase in the frequency of decisions is that precedents can be found more often than formerly, and the necessity of getting business done means that they are likely to be relied on. Apart from national traditions, international law and international organization are also becoming rapidly solidified, and governments, in considering problems, are confronted by many treaty or other international limitations. The increasing mass of decisions to be made, together with this rapid growth in the web of custom, distributes the work of deciding many of the questions, and leaves only those of major importance to be considered by statesmen at the helm. It is an unwritten rule of the State Department that an official shall never send any matter to his superior if he has authority to dispose of it himself. It is only by this means that the Secretary of State can handle the million and one pieces of correspondence which nominally go through his hands each year.

Thus modern conditions are bringing about a dual movement. The field officer is being bound more by the foreign office, and the latter by the executive government, which itself is becoming more responsive to public opinion organized in legislatures or otherwise. At the same time all officials are becoming increasingly enmeshed in a mass of law, precedent, and tradition whose interpretation and application must be left to lesser officials and to the man on the spot.

With this situation, "high policy," in its sense of free decision by central authority on matters of international relations, is tending to disappear. Policy is becoming the resultant of numerous decisions, each of apparently minor importance, made often by minor officials in consideration of traditions, precedents, law regu-

lations, and instructions, under the general guidance of public opinion as interpreted by statesmen. The organization is coming to dominate personalities, with the result that the danger of international clashes will become greater unless these great national organizations are geared together at many points. A world of impersonal juggernauts each relentlessly going its course without attention to the others would certainly result in catastrophe.

There are limits to this process of mechanization. The use of conferences and the development of international organization is evidence of the continuing need felt for personal contacts. Personality is in fact an essential element in the success of all administration and business, since human organizations are not mechanical systems, and the more complex they become the more their human basis must be alert and intelligent. There is grave danger in a complicated organization whose members do not understand it. "The notion," writes Mr. Hughes, "that a wide-awake, average American can do anything is flattering to the American pride, but costs the government dearly."

The United States has in the past often had able Secretaries of State, able ambassadors and ministers and able diplomatic secretaries and consuls. She has sometimes had Presidents with experience in international affairs. But these attributes have been accidental, and until recently there has been little in the system for naming these officers to assure the appointment of able and trained men for functions in the international field.

In England the parliamentary system is an assurance that the minister of foreign affairs will be a man of known ability and experience in that field. The foreign office and foreign service have long been filled by examination and promotion and are thoroughly competent if somewhat aristocratic professional services. Foreign policy in England has been greatly influenced by the permanent officials of the foreign office and sometimes by the Crown itself. There is a strong tradition of continuity in foreign affairs which has militated against influence by the public and Parliament and which has augmented the influence of the Crown and permanent officials who know traditions and precedents. As has been noted, the influence of precedent is inevitably greater where the mass of

business is large, and until recent times Great Britain and European countries in general have had relatively much more foreign office business than has the United States. They have also been under greater pressure to maintain continuity of policy in order to avoid political dispute and disunity in international bargaining.

Too rigid an adhesion to tradition is not desirable, especially in a rapidly changing world, and this is the danger of control by permanent officials. Diplomats abroad are less likely to be overrespectful of tradition, though, if the diplomatic service is purely professional, as it inclines to be in European states, the diplomats may lose touch with the essential interests and currents of opinion at home.

In the United States there can be a great increase in the influence of permanent officials without this danger. Though it has been suggested that Alvey A. Adee, who served as second Assistant Secretary of State for over forty years until his death in 1924, may have been too favorable to precedent and secretiveness, the value of his experience and wide knowledge has been generally recognized. A strong Department and foreign service would do much to eliminate friction among the political organs of government by guiding the judgment of each to a common conclusion. It would keep in touch with public opinion systematically and with Congress as well as with the President.

The problem of developing such services involves both organization and personnel. Let us consider the latter first. In spite of sporadic efforts by Secretaries of State and Presidents, notably Cleveland, the foreign service was a harvest for the spoilsman until the consular service was put under the merit system by the Consular Service Reorganization Act and by Roosevelt's executive order of 1906, followed by a similar treatment of diplomatic secretaries by Taft's order of 1909. An act of 1915 provided for appointments to grades rather than posts in the two services, thus permitting greater freedom of transfer among posts. Designation for service of not over three years in the State Department was also authorized. The strain of the war and the report on the foreign service by the National Civil Service Reform League in 1919 finally produced the Rogers Act, approved in 1924, which

organized the consular and diplomatic services as the "foreign service of the United States" in nine grades, increased the salary scale, and provided a system of recruitment, promotion, and retirement.

The Act was strongly endorsed by the Department itself and brought an undoubted improvement. The amalgamation of the consular and diplomatic services, however, has not proved an unmixed blessing. Foreign service officers normally start in the consular branch, but many hope to be transferred to the diplomatic branch, which still enjoys greater prestige. The problem of promotions and transfers is not easy, and there have been allegations of favoritism and clique control. The Rogers-Moses Act now pending in Congress proposes to create a new Assistant Secretary of State who shall not have been in the foreign service for two years and whose sole function will be to attend to promotions. With him are to be associated a member of the foreign service personnel board and three other officials appointed annually by the Secretary of State, not more than one of whom may be a foreign service officer. At present three foreign service officers constitute the executive committee of the foreign service personnel board in charge of promotions. There is a further provision that five years' consular service shall be required for appointment in the diplomatic branch, which would result in the transfer of a number of diplomatic secretaries to consular offices.

While the Rogers Act does not apply to chiefs of diplomatic missions, President Coolidge's executive order giving it effect suggested promotion of career officers to chiefs of mission. In fact, seventeen such appointments have been made. Much is to be said for leaving the President free to appoint as chiefs of important missions representative citizens who have made their mark in business, literature, or politics. The United States has undoubtedly benefited by having such men as Lowell, Phelps, Hay, and Choate, to name only four of a gallery of distinguished American ambassadors, in diplomatic posts. When advised by career secretaries, the inexperience of such men in diplomatic technique is not a disadvantage, while their knowledge of American public opinion, the prestige they derive from practical achievements, and their judg-

ment of human nature give them an advantage over professional officers.

The niggardly policy of Congress toward the salaries of diplomats, foreign service officers, and State Department officials is slowly being remedied. Complaint on this score has been made from the time of John Adams to that of Walter Hines Page. The policy probably originated in the thought that diplomacy and all its works were contrary to democratic simplicity, a thought reflected in the non-use of the title "ambassador" until 1893, in spite of the fact that it is used in the Constitution and in the regulations in regard to dress and ceremonial. Ambassadors still receive only $17,500 and ministers $10,000 a year, but the Rogers Act authorizes an additional representation allowance. The process of buying embassies and legations, the rent of which was a personal charge on the ambassador or minister in the past, was begun under the Lowden Act of 1911 and stimulated by the Porter Act of 1926, Congress appropriating $10,000,000 for such purchases.

Diplomatic secretaries were formerly recruited exclusively from the wealthy, because the salaries, ranging from $1,200 to $3,000, provided under the act of 1915, furnished but a small percentage of the necessary costs. The Rogers Act, increasing the salary range from $3,000 to $9,000 for foreign service officers, is still inadequate for the diplomatic branch; for the consular branch, the scale is not greatly different from that existing previously and compares favorably with that of the British service. Provision for adequate retirement allowances under this act assures the elimination of deadwood and provides opportunity for promotion of those in the ranks.

The professionalization of the foreign service under the Rogers Act drew attention to the situation of the home service of the department. Division chiefs were often instructing foreign service officers with twice their salary. A foreign service officer could not afford to be "promoted" to be Assistant Secretary of State. Representative F. M. Davenport told Congress on January 5, 1928, that "a responsible officer of the State Department has long been in the habit of getting up at five o'clock Monday morning to do the family washing" in order to make ends meet. The salaries have

been insufficient to keep the best men in the service, the turnover in 1927 being 19 per cent. Chiefs of division have been in large measure recruited from the foreign service—fifty-one men from the field were on duty in the Department in 1928—but under existing legislation such men cannot remain in Washington over four years, and this situation produces kaleidoscopic changes.

Conditions of service have steadily become worse with the centralizing tendency resulting from more rapid communication and the increase in the mass of business. In 1914, 209 officers and employees with an average salary of $1,476 handled 400,000 pieces of correspondence. In 1927 with the cost of living doubled, 592 officers and employees with an average salary of $1,860 handled 1,180,000 pieces of correspondence. The space occupied was about the same; there was overcrowding, overwork, under-payment, dissatisfaction, a high turnover, and inevitable delays.

The Porter bill, now before Congress, aims at improving this state of affairs by organizing the "home service" of the State Department in classes with salaries equivalent to those now enjoyed by the foreign service. It is also proposed to recruit, promote, and retire these classes according to the general civil service laws. Although this would probably improve conditions, the civil service laws may be too rigid to permit of bringing in experts of the type needed in much of the State Department's work. The Porter Act would authorize the appointment by the President with the advice and consent of the Senate of two Under Secretaries and six Assistant Secretaries of State at salaries of $13,500 and $12,000 respectively; provision for other appointments outside of the civil service requirements by this means might possibly be desirable. An opportunity to bring in competent men, especially in such professional branches as the solicitors' office and the editorial department, without too much red tape would seem desirable. But an increase in the room available, in the size of the staff, and in the salary scale are the main needs.

The Secretary of State is responsible for the activity of the Department and the foreign service, and the advantage of having a Secretary who has had experience in diplomacy has often been commented upon, though doubtless it is not desirable that pro-

fessional diplomats should have the position. Such experience was the rule up to the time of Jackson, but has been rare since. The Secretary also has to make frequent contacts with the Senate in the matter both of appointments and treaties, and prior senatorial experience is therefore an asset. From 1811 to 1892, with brief interregna covering less than one and a half years, the Secretary had always been a Senator, except for Evarts, who became a Senator later in his career. Since that time the practice has been less regular, though Secretaries Sherman, Knox, and Kellogg had been in the Senate prior to their appointments to the secretaryship. Friction with the Senate has been reduced during the *régimes* of Secretaries who had been members of that body. Occasionally ex-Secretaries of State have entered the Senate; Knox and Mr. Root are examples. Such a practice mitigates friction, and it is possible that a constitutional amendment making ex-Presidents and ex-Secretaries of State life members of the Senate might be of great advantage in the management of foreign affairs.

The President is becoming increasingly concerned with foreign affairs, and the selection of a man with some experience in this field would seem beneficial. In the early days the Presidents had usually had diplomatic experience or had been Secretary of State; this was true of John Adams, Jefferson, Madison, Monroe, and John Quincy Adams. In the middle period Presidents usually came from Congress. Only Van Buren and Buchanan had had diplomatic or State Department experience. In the last generation there has been a tendency to elect state governors to the presidency; none has had diplomatic experience, with the possible exception of Taft, who went on a special mission to the Vatican, and only Harding had been in the Senate.

It is perhaps more important from the standpoint of the adequate conduct of foreign policy that the President should understand the Senate and Congress than that he should understand foreign affairs; the latter can be left to an able Secretary. The relations between the President and Secretary of State depend on personalities; the President can be his own foreign minister if he wishes, as were Roosevelt and Wilson, but in view of the increasing burden of the President's office, the tendency will

probably be for him to leave matters to the Secretary. It would seem, however, that the maintenance of good relations with the Senate might well be his province. The President has the power as party chief and distributor of patronage to keep his party together, and there is no field where political pressure could better be used than in the conduct of foreign relations. With the multiplication of contacts with foreign relations by departments other than the State Department, it is important that the President should act as a coördinating agency.

The United States is slowly moving toward reliance upon experts in government, and in foreign affairs this movement has made rapid progress in the period since the war. Much remains to be done, especially in the home service of the State Department, and public opinion should keep Congress alive to the need. With the departments of war receiving an average appropriation of about $2,000,000 a day, it would seem that the Department of Peace, as Secretary Hughes christened the State Department, might receive more than $2,000,000 a year. Yet when the $9,000,000 average receipts by the Department in passport, visa, and other fees is subtracted from the average $11,000,000 appropriation, this is all it receives. "The American people," said Representative Davenport in Congress,

> are not niggardly about an adequate expenditure for defense, and if three millions burden upon the taxpayer [the estimated net cost of the Department for 1928] are sufficient to insure skilful international leadership, enough is enough. But if it shall appear that inadequate appropriations, in view of the vast interests at stake, are injurious to the functioning of the great Department of Peace, neither will the American people begrudge those additions which make for the skilful and unhampered leadership of foreign affairs.

THE REORGANIZATION OF THE STATE DEPARTMENT

EVEN the ablest personnel cannot work effectively without division of labor and definition of authority. The changed conditions brought about by the centralization of foreign service instructions

in the State Department as well as by the decentralization through the development of foreign contacts by other departments suggest a reconsideration of the Department of State and its relations to other executive departments.

The State Department may be said to have originated in the committee of secret correspondence selected by Congress on November 29, 1775, though this was only one of many committees doing foreign business. The committee for foreign affairs named in 1777 was more important and the department for foreign affairs established in 1781 under Robert R. Livingston was the first organization having any semblance of a foreign office. An act of July 27, 1789, reorganized the department of foreign affairs under the President after the adoption of the Constitution, and on September 15, 1789, its name was changed to the Department of State because of the addition to its duties of several domestic matters, such as correspondence with the governors of the states, custodianship of the laws and great seal of the United States, and certain functions connected with the election of the President.

The Secretary of State has a recognized precedence over the other Secretaries in the Cabinet and is in the succession to the presidency after the Vice-President. The Department is more closely under the President and less under congressional control than are other departments. "The Department of State," said Senator Spooner in 1906,

> is not required to make any reports to Congress. It is a department which from the beginning the Senate has never assumed the right to direct, or control, except as to clearly defined matters relating to duties imposed by statute and not connected with the conduct of foreign relations. We *direct* all the other heads of departments to transmit to the Senate designated papers or information. We do not address directions to the Secretary of State, nor do we direct requests, even, to the Secretary of State. We direct requests to the real head of that Department, the President of the United States, and, as a matter of courtesy, we add the qualifying words, "if in his judgment not incompatible with the public interest."[33]

[33] *Congressional Record*, February 6, 1906, XL, 1419.

From a modest beginning in 1789 with the Secretary of State, four clerks, one French interpreter, and two messengers, handling a few hundred pieces of mail matter a year, and costing the government about $8,000, with an additional $40,000 to spend for two or three missions abroad, the Department has grown to such an extent that it now possesses a personnel of almost 600 at home and 3,600 abroad handling yearly over a million pieces of mail matter, and costing about $1,000,000 at home and $10,000,000 abroad, of which some $9,000,000 is returned in fees. With this growth in size there has been a gradual differentiation in function. Edward Livingston attempted a functional organization in 1832, but apparently his efforts simply drew attention to the political plums in his domain. In 1855 Congress legislated on the foreign service but Attorney General Cushing said it would be unconstitutional to limit the President's discretion in appointments to offices created by the Constitution, as were those of ambassadors, other public ministers, and consuls.

Certain functional differentiations in the Department did, however, emerge slowly. The recognition of the second Assistant Secretary of State after the Civil War as a permanent official was especially important. This office was occupied for sixty years by William Hunter and Alvey A. Adee in succession, and this has given continuity to the organization. Consular and diplomatic bureaus were differentiated to some extent on geographical lines, and various administrative bureaus were developed, such as those dealing with indexes and archives, citizenship and foreign trade, but serious attention was not given to the problem of scientific organization until after the Spanish War.

New international responsibilities developed out of the control of the Panama Canal and the policing of the Caribbean; out of possession of the Philippines and the adoption of a more positive policy in the Far East; out of the more consistent participation in international conferences and political negotiations of general interest; out of the great increase in American trade, investment, and travel abroad; and out of immigration into the United States and its checking by legislation. The result has been a great strain on the Department, and steps have been taken to reorganize the

foreign service, the Department itself, and interdepartmental relations generally.

The foreign service problem has been considered in part, but the departmental reorganization arising from the recent efforts to improve foreign service personnel may be noted. An Assistant Secretary of State, two boards, a division, and an office in the department are now devoted almost entirely to the foreign service. The foreign service personnel board, modification of which is proposed by pending legislation, recommends appointments, promotions, and transfers, and for this purpose is in touch with the board of review for efficiency ratings and with field inspectors. The foreign service administration division looks after expenditures and requirements of the agencies abroad and the instruction of officers in detail matters. The foreign service buildings office looks after the purchase of buildings and the housing of foreign agencies in general.

The statutory organization of the foreign service by the Rogers Act raised a legal problem in view of the legal opinion that the President's discretion to recognize constitutional offices and to name appointees for them with Senate consent cannot be impaired by Congress. Earlier acts designating posts and grades of diplomatic officers and consuls, including that of 1893, which first suggested the appointment of ambassadors, have been interpreted as *recommendatory rather than mandatory*. The Rogers Act, however, creates new offices—the foreign service of the United States—not mentioned in the Constitution. Congressional regulations in regard to examination, appointments, salaries, promotion, and retirement from these purely statutory offices are therefore mandatory. The discretion of the President and Senate in appointing ambassadors, other public ministers, and consuls is theoretically unaffected, but in practice, since Congress appropriates salaries for "foreign service officers," but not for diplomatic secretaries and consuls, the President is obliged to nominate the latter from the list of foreign service officers. These officers have thus two or perhaps three commissions, one received by examination and promotion under the act controlling salary, and another received by appointment of the President with the advice and consent of the

Senate as diplomatic secretary or consul. They perform official functions under this latter warrant. The same individual may have a commission as both diplomatic secretary and consul.[34]

Apart from the foreign service, the Department has rapidly developed divisions and bureaus to carry on its political, technical, and administrative work, especially during and since Secretary Knox's period.

The political work is the major interest of the Secretary of State, of the Under Secretary, of three Assistant Secretaries devoted respectively to Europe and the Near East, to Latin America and to the Far East, and of six geographical divisions devoted respectively to Western Europe, Eastern Europe, the Near East, Latin America, Mexico, and the Far East. These divisions study all reports from their areas and take a prominent part in formulation of policy and in negotiations. Their chiefs often come in direct contact with foreign diplomats in Washington. The Western European division considers relations with the League of Nations, and the Assistant Secretary for Europe and the Near East has had an important part in the negotiations on the renunciation of war. The Eastern European division keeps close track of developments in Russia, though in large measure from unofficial sources, since the United States has not recognized the Soviet Union.

The technical work is done in close contact with the political work of the Department. The solicitors' office, which is also associated with the Department of Justice, is in continuous contact with the geographical divisions, foreign diplomats, and the Secretary of State. Claims, citizenship, extradition, treaty interpretation, and drafting, in fact, almost every political problem and many administrative problems that come before the Department, eventually involve some question of international law, American law, or foreign law which must be considered by the solicitor assisted by a corps of twenty lawyers. The final stages of negotiation and drafting of treaties have been in the hands of this office, though the newly formed treaty division will take over some of this work. The economic advisers' work is rendered of great importance by the increasing economic character of international

[34] Lay, *The Foreign Service of the United States.*

relations. This office grew out of the bureau of trade relations, which in turn succeeded the bureau of foreign commerce, which was transferred to the Department of Commerce in 1903. The consular commercial office under the Assistant Secretary of State who supervises the foreign service administration, receives and analyzes economic reports from the consuls abroad, notwithstanding the fact that such material is now published by the Department of Commerce.

Also of great importance for the Department's political work are the two divisions through which the Department keeps in contact with public opinion. The division of current information gives out press releases and distributes press summaries and current information of importance. It also arranges frequent interviews for newspaper men with the Secretary and Under Secretary, but no direct quotation is allowed unless expressly authorized. The publicity policy of the Department varies with the Secretary, but in general newspaper men who are known and reliable are taken into the Department's confidence. There are doubtless matters which the Department does not discuss with them at all, but apparently these are rare. In general, the Department fears newspaper recourse to hearsay more than its use of the truth, and confidential relations with the press permit trial balloons to test opinion on possible policies as well as propaganda intended for both domestic and foreign consumption.

The division of publications has charge of the Department library, the originals of the laws, treaties, proclamations, and executive orders of the United States, as well as of the diplomatic archives before August 14, 1906, and includes the geographer. Its most important work is editing the *Papers Relating to the Foreign Relations of the United States* and other publications. Though the public gets day to day information about the Department from the press releases, the opinion of scholars, teachers, and of the rising generation is in the long run more affected by the official record of past transactions put out by the division of publications. The policy of the division has recently been broadened to include the publication of treaty negotiations and materials of value for the study of international law. The highest standards

of historical scholarship are employed in editing this material and exclusions are as slight as possible. The departmental order approved March 25, 1925, charged the solicitor or head of the division which had immediate supervision of a topic to review the material prepared by the editor and to indicate omissions required on the following principles:

(a) matters which if published at the time would tend to embarrass negotiations or other business;

(b) to condense the record and avoid needless details;

(c) to preserve the confidence reposed in the Department by other governments and by individuals;

(d) to avoid needless offense to other nationalities or individuals by excising invidious comments not relevant or essential to the subject; and,

(e) to suppress personal opinions presented in despatches and not adopted by the Department. To this there is one qualification, namely, that in major decisions it is desirable, where possible, to show the choices presented to the Department when the decision was made.

On the other hand, there must be no alteration of the text, no deletions without indicating the place in the text where the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing should be omitted with a view to concealing or glossing over what might be regarded by some as a defect of a policy.

The publication of these *Papers*, as has been said, is unfortunately much in arrears, but the chief of the division, himself a distinguished historian, is doing his best to bring them down to date, and is hampered only by the lack of expert assistants to collect and select the voluminous materials.

The bureau of indexes and archives records, indexes, and routes to the interested divisions and bureaus the incoming correspondence and has had custody of the archives since 1906. It also dispatches the numerous telegrams and codes and decodes cipher messages. The office of coördination and review gives the final scrutiny to outgoing correspondence for form, and sees that each piece has been through the proper hands. The newly formed protocol division has charge of ceremonial questions.

Finally, there are a number of purely administrative bureaus, divisions, and offices. The passport division has had an enormous increase of business since the war, and has established bureaus at Boston, Chicago, New Orleans, New York, San Francisco, and Seattle. The visa office likewise has had an increase in activity through various duties placed on the Department by the immigration laws. The chief clerk's office is concerned with internal administration and includes the interpreter's section; it is the oldest distinct office of the Department. There is also a bureau of accounts and a disbursing office.

There appear to be twenty-three divisions, bureaus, and offices in the Department, in addition to the Secretary, Under Secretary, and four Assistant Secretaries. Besides adding two Assistant Secretaries, the pending Porter Act would add another Under Secretary to head an office devoted to business administration, advised by a board composed of these officials and meeting monthly with the chiefs of division, bureaus, and offices to consider the business administration of the Department. It would also authorize the Secretary to create an advisory council of the high officials to which the chairmen and ranking minority members of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs might be invited.

The organization seems well conceived and corresponds closely to that of the foreign offices of other states. It is to a considerable extent a skeleton organization; more room, personnel, and money are necessary to enable it to do its work with efficiency. Still, there are some advantages in its small size and crowded quarters. The divisions are not so specialized and separated as to lose contact with the whole and with each other, and the family relationship characterizing it in the past to some extent continues. Personal conference and discussions are common; field officers are regularly brought in to make contacts and usually to head divisions; and flexibility is preserved in the assignment of particular business.

The adjustment of interdepartmental relations is not a new problem in the United States. Coöperative action of the State and Navy Departments goes back as far as the appointment of John Paul Jones to negotiate with Algiers in 1792. Legally, the Presi-

dent is the only link uniting the departments. There is no recognized principle of subordination of naval and military forces abroad to the senior diplomatic officer on the spot, as there is in England. Coördination may, however, be achieved by executive orders or instructions of the President, by contacts among the secretaries of different departments in Washington, by contacts of officials in the departments, and by informal contacts of officials abroad.

The navy has taken a prominent part in American diplomatic negotiations, especially with the Barbary Powers, with Turkey, in the Far East, and in the Caribbean. Perry's mission to Japan in 1853 and Shufeldt's mission to Korea in 1882 are outstanding examples. When the naval commander has been entrusted with negotiation, instructions have usually been prepared jointly by the Secretaries of State and of the Navy. In some cases naval contingents have carried a civilian official instructed by the State Department to negotiate. This was the usual procedure in the transactions with the Barbary Powers in the early nineteenth century. In other cases, naval officers have acted in a diplomatic sense under the authority of the Navy Department, alone or on their own initiative, especially in cases involving protection from immediate danger of citizens abroad. An example of this is found in the sailing orders of Commodore James Biddle under date of May 22, 1845, to "hold your squadron at the disposition" of Commissioner Alexander H. Everett to visit Japan, but "should he decline to do so, you may yourself if you see fit, persevere in the design, yet not in such a manner as to excite a hostile feeling or distrust of the government of the United States." Biddle sailed to Yedo (Tokyo) bay the following year and communicated with the Japanese officials but was unable to make a treaty.

The Department of State has instructed its agents abroad to "exercise extreme caution in summoning national war vessels to their aid." Naval displays and landing forces abroad, of which there have been some seventy instances in American history in time of peace, have usually been decided upon at Washington, and the diplomatic and naval officers concerned are instructed in a common sense by their respective departments. Sometimes diplo-

matic instructions have been radioed by naval code so that naval vessels in the vicinity might pick them up and act in coordination. Informal conferences of the foreign service and naval officers on the spot are also common. For example, during the disturbances in Syria in the fall of 1925, two American destroyers were in Beirut harbor and their officers met for daily conferences with the resident American consul. During this episode the Near Eastern division of the State Department was in regular consultation with the office of naval intelligence, and this facilitated cooperation both in Washington and in Syria.

In time of war such coördination may be more difficult. Divergences of policy are apt to arise between the foreign and naval ministers of belligerents because the naval minister usually urges measures to cripple the enemy's trade in a way which will inevitably complicate diplomatic relations with neutrals, a result which usually seems less important to the navy than to the foreign office. Such differences occurred in both Great Britain and Germany during the World War, particularly in Germany, where the upper hand of one department or the other was disclosed by the variations in submarine policy. The same situation is interestingly disclosed by the comments which Gideon Welles, Secretary of the Navy during the Civil War, consigned to his diary in regard to the policy of Secretary Seward. In such cases the President's decision is of course conclusive in the United States.

Similar methods assure coördination among other departments. The economic adviser and the consular commercial office of the State Department are in continual contact with the bureau of foreign and domestic commerce of the Department of Commerce, the visa office with the commissioner general of immigration of the Department of Labor, and the solicitor's office with the Department of Justice. The State Department was in contact with the Treasury in connection with the allied debt settlements.

The foreign agents of the Department of Commerce have rapidly increased in number and their investigations have somewhat overlapped those of consuls, creating something of a spirit of rivalry. Arrangements satisfactory to both departments seem to be developing. They are applicable also to the foreign repre-

sentatives of other departments. In order to receive recognition abroad permanent foreign agents of the other departments must be accredited through the State Department, although they have to report direct to their own departments.

Such agents are also to some extent under the control of the senior diplomatic or consular officer on the spot. An executive order of April 4, 1924, provided that officers of other departments engaged in special investigations must report on arrival to the embassy, legation, or consulate general in the area, and when representatives of other departments are stationed in the same city as a representative of the Department of State "they will meet in conference at least fortnightly under such arrangements as may be made by the chief diplomatic officer" or ranking consular officer "to secure a free interchange of all information bearing upon the promotion and protection of American interests." The order also provides that there shall in general be a free interchange of written information and that communications among officers of the State and other departments shall ordinarily be made through the supervising consul general. Where urgency requires direct communication, copies of written correspondence must be sent to the supervising consul general. An executive order of August 10, 1927, designates the precedence of officers abroad: the chief or chargé d'affaires *ad interim* and counselor of the diplomatic mission rank first, followed by military, naval, and commercial attachés; as between consuls and foreign commercial officers, the latter rank with but after the foreign service officer within designated grades; consuls general in their districts rank after brigadier generals and between rear admirals and captains of the navy; consuls follow colonels and captains of the navy.

With the increasing centralization of all instructions in Washington, the problem of coördinating the activity of agents of different departments is not insuperable, though it involves continual contact between departments and more frequent references to the Cabinet or to the President.

II.

THE UNITED STATES AS AN ECONOMIC POWER

CHAPTER ONE

COMMERCIAL EXPANSION

THE World War, like the Napoleonic wars, brought to the United States an extraordinary expansion of foreign trade. Nations in arms reversed the peace-time rôles of production and consumption; consumption was lavish and production comparatively laggard. Supplies were urgently needed from abroad, and the United States, of all the neutrals, was the chief supplier. Instead of checking the trade, her entry into the war enabled it to gather a new momentum. The excess of merchandise exports over imports for the calendar year of 1913 amounted to $691,000,000; by 1919 it had reached $4,016,000,000, the apotheosis of the "amazing interlude." Though we are now back on a normal basis of trading, the growth in American foreign commerce since pre-war days continues to be in advance of the growth in world commerce.

Seeing that prices have gone up considerably since 1913, comparative statistics showing the dollar value of our trade now and in pre-war years are misleading. The true significance of development may be gathered from index numbers representing the general average for quantity of trade, for value according to pre-war prices, and for statistical value. These have been prepared by the Department of Commerce.[1] (1913 = 100.)

	Exports			*Imports*		
	Quantity	*Price*	*Value*	*Quantity*	*Price*	*Value*
1913	100	100	100	100	100	100
1927	158	124	194	180	130	233

These comparisons wear a more sober aspect than that represented by statistics based on fluctuating values. They testify, none the less, to an impressive growth, and one that stands out against the background of war and its economic aftermath. According to other figures of the Department of Commerce,[2] in 1913

[1] *Foreign Trade of the United States in the Calendar Year 1927*, Table 6.

[2] Fifteenth Annual Report of the Secretary of Commerce for the Fiscal Year ended June 30, 1927.

our foreign trade, exports and imports combined, constituted 11 per cent of the world's total trade, as compared with 16 per cent in 1926-1927. The tables of the League of Nations are carried down only to 1925, and, in showing the ratios of world trade held by the trading nations, reveal Great Britain still the leader, but closely pressed by the United States:

	1913	*1925*
	Per cent	*Per cent*
Great Britain	15.24	15.18
United States	11.15	14.57
Germany	13.12	8.17

Britain had probably regained her pre-war proportion by the end of 1927, but through imports at the expense of exports, a development hardly comforting to an exporting country. When price adjustment has been made, Great Britain is found to be exporting only 78 per cent of what she exported in 1913,[3] though normal development should have made the proportion 120 per cent. This decline, coupled with America's progress, has raised the United States to world primacy in exports. Whereas in 1927 Great Britain sold $3,777,000,000 of commodities, the United States disposed of goods valued at $4,808,700,000, or over 25 per cent more.[4]

America's foreign trade before the war was in large measure dependent upon the interchange of commodities with Europe. It has since shifted from that dependence. By 1925 Asia had become our chief contributor, and remained so until 1927, when Europe regained its leadership by a small margin. The ratio of our European takings to our total imports, however, was only 30 per cent as compared with 48 per cent in 1913. On the export side, the proportion of our sales to Europe in 1927 had fallen to 47 per cent of the total from 60 per cent in 1913.[5]

[3] Horne, Sir Robert, *Hansard,* July 25, 1927. cc. 914-5.

[4] Department of Commerce: *Commerce Reports,* June 11, 1928, which shows that British exports in 1927 increased by 7.1 per cent over the 1926 figure, while American exports increased by 1.2 per cent. The *Commerce Yearbook,* 1926, shows the following comparison with 1925. Great Britain: decrease, 15.66 per cent; United States: decrease, 2.06 per cent. The influence of the coal strike and the general strike on Britain's diminished exports in 1926 must be borne in mind.

[5] The *Memorandum on Production and Trade,* published by the League of Nations, contains detailed statistical data of the national shares of world trade.

This gradual withdrawal of European domination from our commerce, like our general trade progress, is often ascribed to the war. In fact, the war merely forced a process that had been in steady evolution since 1880. In that year, Europe took as much as 83 per cent of our exports, and sold us 50 per cent of our imports. But those exports were in the main agricultural, and it was not until the century had been turned that manufactures began to enter in quantity into the merchandise side of America's foreign trade ledger. The reason was not that manufactures had failed to influence the American economy; America's tardiness in entering world markets was due to her absorption in internal development. Her iron ore, coal, oil, timber, and other natural resources awaited exploitation; virgin territory remained to be peopled; and a young industrial machine had the task of supplying home territories as they were settled and exploited. Because of its scope, this domestic concentration has been likened to internal imperialism, inasmuch as the struggle absorbed national attention and left its imprint on national psychology. The consequent domestic interchange of domestic commodities was so prodigious that in 1907 it was equal in value to the foreign commerce of the entire world.[6] Great as was this development—a development in the greatest free-trade zone in the world—production outpaced home consumption, and, as the United States developed, she began to seek outlets overseas for her surplus.

Trade with the United States was a simple matter to Europe as long as we fulfilled the function of purveyor of raw materials in return for the manufactured goods of northwestern Europe. This was the relationship suited to the economic exigencies of both continents. Old in settlement, abundant in population, northwestern Europe was engrossed with the need of external sources of raw materials and of external markets for fabricated wares. The extent of this interest may be appreciated from the fact that the foreign trade of Europe is generally regarded as amounting to a half to four-fifths of its total commercial activity. Great Britain's proportion is one-quarter, while that in the United

[6] Bogart, *Readings in the Economic History of the United States,* p. 645, quoting report of the National Conservation Commission.

States is as little as one-tenth. Instead of complementing European economy, those industrial products from the United States seeking disposal abroad were viewed in the light of competitors of existing European commodities. Unwanted for the most part in industrial Europe, they were increasingly absorbed by other continents. Absorption continued almost in an incidental manner, for relatively little organization or effort, save in a few highly specialized products, was expended in selling goods overseas, the United States up till 1913 being more concerned with internal commerce. Besides, the American business man had comparatively little experience to guide him. The Chief of the Bureau of Manufactures said before the war, "The American business man is seeking foreign markets, but inexperience makes him enter upon the task somewhat vaguely."[7] By 1913, however, the outward flow of manufactured foodstuffs, semifinished and finished manufactures had so accelerated in volume that altogether they registered 61.4 per cent of our total exports. In 1913 the banking system of the United States was renovated completely for the task of carrying American economic interests abroad. In 1913 the Department of Commerce came into existence as a separate executive division. Thus, that year, besides marking the commercial apotheosis of Great Britain, marked the economic maturity of the United States. In the words of a British commentator,[8] the war found the United States "at the very hour when she was ripe and ready . . . for the external mobilization of her internal wealth."

How successfully this mobilization proceeded in the supplying of Europe has already been shown in statistics. Besides Europe, other countries needed supplies, and our manufacturers developed what Dr. Julius Klein calls a foreign trade mindedness, an attribute our forbears possessed in full measure prior to the opening up of the Mississippi Valley. Whereas the war-time increment in our commercial intercourse with Europe was extraordinary, much of that with non-Europe was normal development, and has survived post-war adjustment. Illustrated simply, the increase in

[7] Quoted by Commercial Attaché Louis E. Van Norman, "Selling our Goods Abroad," *North American Review*, August, 1926.

[8] Peel, Hon. George, *The Economic Impact of America*, p. 147.

American commerce with Europe as compared with that with the rest of the world from the average of 1910-14 to 1925 was as follows, according to League of Nations figures:

	Imports	*Exports*
Europe	+ 48	+ 93
All other countries	+ 250	+ 183

When allowance for price changes has been made, the facts emerge that compared with the pre-war year of 1913, trade between the United States and Europe is almost stationary, at best showing only a 25 per cent increase in exports, but that American foreign trade with the rest of the world has gone up several fold. It would be incorrect to imply that Europe has ceased to bulk large in our commercial calculations; statistics show that it still preponderates in them. Depression in Europe reacts powerfully on American trade, for we need the specialized products of Great Britain, France, Italy, and Germany, while European markets are still the main recipients of our raw materials, foodstuffs, and certain standard and semimanufactured wares. The change is relative; other continents are crowding Europe in our economic vision, since, like John Wesley, the American exporter looks no longer upon Europe, but on the world, as his parish. "We are provincial no longer," said President Wilson in his second inaugural, and he was testifying as much to economic realities as to political hopes. The economic reality of today is that foreign trade with all lands is beginning to dominate our economy, leading Secretary Mellon to say:[9] "Business in this country cannot progress indefinitely without its foreign markets."

So is the world dependent upon its commercial ties, which touch everyday life with myriad foreign influences. M. Durand, the creation of Mr. Delaisi,[10] affords an amusing illustration of the way one may be oblivious to the interweaving of the outside world with the most prosaic of individual existence. After a day's activities foreign-colored in every facet, M. Durand finally falls asleep under his quilt, "made of feathers of Norwegian duck," and dreams of France as "decidedly a great country, entirely self-

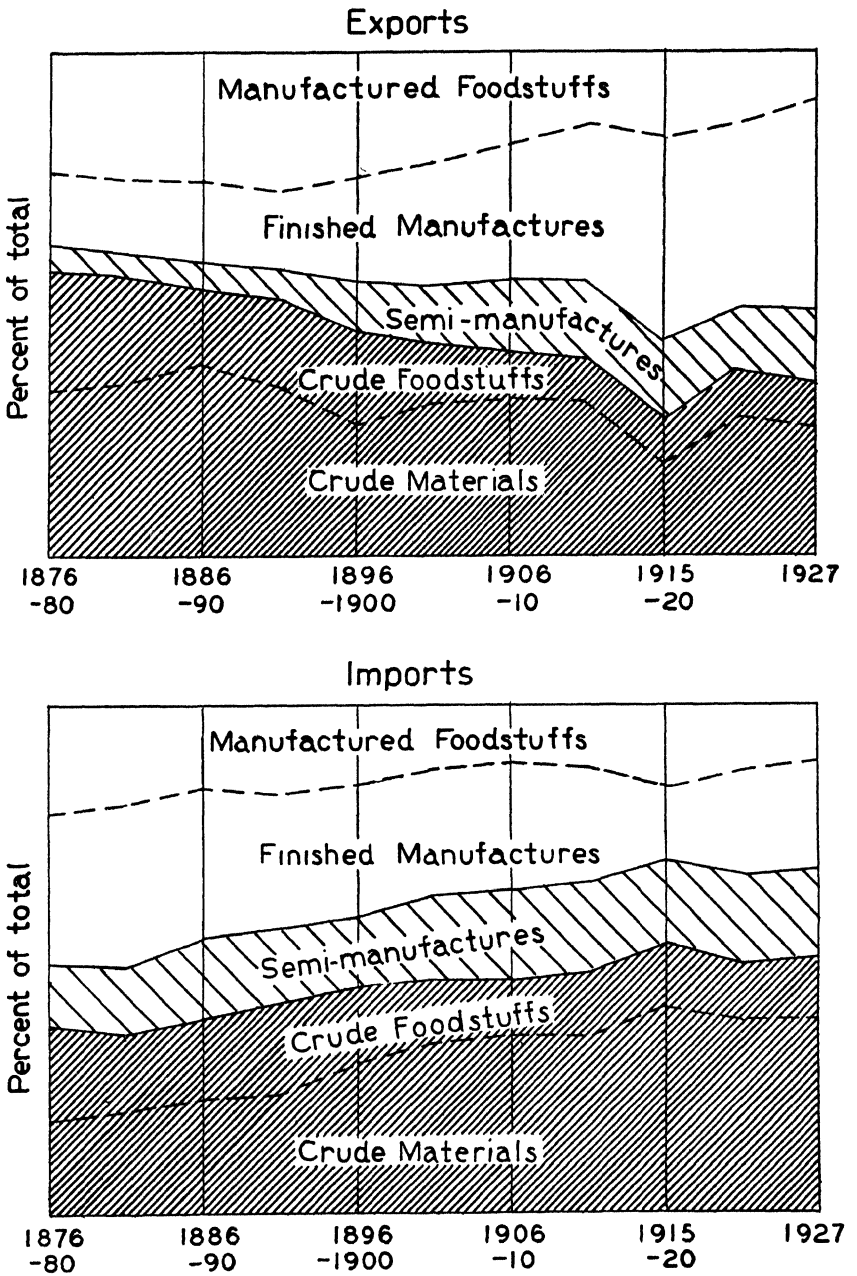
[9] Annual Report of the Treasury for 1922, p. 2.
[10] Delaisi, *Political Myths and Economic Realities.*

supporting and able to snap her fingers at the whole world." The everyday life of the American is similarly affected. "Every American home, and every American life," says William C. Redfield,[11] former Secretary of Commerce, "depends daily upon the continuous labor of masses of our fellow men in other lands for indispensable supplies that we cannot produce." Luxuries of today become the necessities of tomorrow, and, compared with the scale of living of the day after tomorrow, the present standard may be regarded as bare subsistence. We demand the musk from the deer of the Tibetan highlands; caviare from Siberian rivers, the orchids from the swamps of the Upper Amazon. In exchange, we are consigning illuminating oil to Tibet, agricultural machinery to Siberia, baseball equipment to Japan, and wheat flour to Brazil among the 1,183 categories of our exports. Trade is capable of unlimited expansion, in particular with those countries that buy our manufactured goods.

THE UNITED STATES AS A MANUFACTURER

Economic energy in the United States is concerned increasingly with finished manufactures, which are making such headway in our export trade that in 1927 they amounted to 42 per cent of our total. The possibilities of producing this class of commodities are greater than are those of producing agricultural commodities, and the possibilities of factory disposal are in direct proportion to improvements in standards of living, whereas the disposal of agricultural commodities is coextensive merely with the needs of bodily existence. Non-Europe, being in the main non-industrial, is the logical market for American manufactures. In exchange, non-Europe supplies us with our major needs from the outside world, such as rubber, silk, tin, nickel, coffee, and cane sugar, and supplements our own resources in meeting our requirements of wool, hides, skins, paper, and other commodities of some of which we are the world's leading consumers. Most of these items hail from non-Europe, and as we increase our takings of them, we put more buying power into the hands of our customers for the pur-

[11] *Dependent America,* p. vi.



Percentage change in the trade of the United States in classes of commodities.

chase of our fabricated wares. It is on this exchange that American foreign trade is building its future.

Our manufacturing equipment is well provided for its task. Ewan Clague's investigation for the Department of Labor has testified to our advance in productivity. Taking 1914 as 100, he gives the following as the 1925 index of man-hour production: steel works and rolling mills, 153; automobile manufacturing, 310; cement making, 157.8; flour milling, 139; petroleum refining, 177.3; rubber tire making, 311; and so on in almost all lines of industry.[12] In submitting his remarkable statistics, Mr. Clague says:

> There is taking place in the United States today a new industrial revolution which may far exceed in economic importance that older industrial revolution ushered in by the series of mechanical inventions which occurred in England in the last quarter of the eighteenth century, and which eventually transformed English industrial, political, and social life. We are at the present time experiencing what is perhaps the most remarkable advance in productive efficiency in the history of the modern industrial system.

This is far greater than the advance in the productivity of the average farm worker, which in the period 1922-26 was 15 per cent greater than in the period 1917-1921.[13] Many reasons have been propounded for the genesis of this neo-industrial revolution in the United States, and they may all be contributory, but basic reasons are that we have tamed the kilowatt into the friend of man (as Mr. Hoover has put it) and have lowered our production unit costs by the application of scientific management to industry. These achievements are mainly the fruit of post-war experience. The United States spends $200,000,000 a year in industrial research,[14] which is the handmaid of scientific management. "I care not who sees my processes," said an American manufacturer, asked by a party of Japanese engineers if they could look around

[12] *Monthly Review of Labor Statistics*, July, 1926 *et seq.*

[13] Baker, O. E., of the U. S. Dept. of Agriculture, quoted in *A Century of Industrial Progress*, p. 10. It has been estimated that the invention of farm machinery between 1830 and 1880 multiplied the production of a farm worker over twelvefold. *Cf.* McElroy, *Economic History of the United States*, p. 67.

[14] *A Century of Industrial Progress*, p. 314.

his works; "they will be improved before you get back to the Orient." Hence our ability to compete abroad.

Our experience is being adopted in other industrial countries under the name of rationalization, and increasingly under American management. Under its influence world machine production has increased its capacity by 47 per cent since 1913.[15] But most of it has remained unutilized, the hitch in the rotary movement lying in lack of consumption, because of which machine output has advanced by only 8 per cent. The American figures, however, are much larger, since it is precisely in machine products that the United States is advancing toward the exporting future we have outlined. In the United States purchasing power is tapped in ways as enterprising and as unique as are our productive processes, being fostered by high or "cultural" wages, employee stockholding, standardized products, and the propagation of what Owen D. Young calls "modified thrift." We have called in future as well as present purchasing power through instalment buying—"disfranchised longing" or "Buy now and pay in a year." Nevertheless, home consumption is left further and further behind by production, the disposition of whose surplus abroad is now commanding almost the same degree of organization as is devoted to its fabrication. Hence the high pressure with which salesmanship is conducted. Thanks to the establishment of the Federal Reserve system and the withdrawal of the prohibition against American branch banking overseas, foreign trade suffers no longer from lack of direct financing and the services of American banks abroad. Credit is available to American industry so plentifully as to arouse European industrial envy. Intensive sales organization in the midst of foreign consumers has led to the creation of little "big-business" Americas in most important cities of the world. Today practically every important business concern in the United States is an American international corporation. Most of them operate through foreign subsidiaries, which a recent estimate shows have advanced 40 per cent since 1914 in Great Britain. No fewer than 213 leading American firms have a direct property in-

[15] *The Economic Forces of the World.* Published by the Dresdener Bank, Berlin, 1927, p. 115.

vestment in other countries.[16] This economic penetration has produced an alliance between American finance and American business whose ramifications are difficult to compute, inasmuch as American commerce is becoming identified in the control of productive enterprises abroad.

A vivid illustration of the modern keenness to supply foreign markets is furnished from France. In 1926 the Department of Commerce undertook to induce the French Government to lift the then existing ban on imported horse meat. The department was inspired by an Oregon concern anxious to dispose of an overstock. The efforts of the department were successful; France lifted the embargo.

> The Department of Commerce was elated with its victory and announced the lifting of the ban through its numerous channels. Other horse dealers read about it and in a few weeks there converged upon French ports hundreds of tons of frozen horse meat. The first arrivals were sold, but the great majority remains in cold storage warehouses at Havre and Paris with the hope that French taste for horse will take a sudden turn for the better. The Americans, it appears, did not realize the limitations of the French market nor did they consider the fact that there was already an extensive domestic business in horse meat.[17]

THE PACIFIC IN THE AMERICAN FUTURE

THE opening of the Panama Canal in 1914 supports the conclusion that the war found the United States "ripe and ready" to take her natural place both as a dominating factor in world commerce and as a Pacific trader. The Canal exposed the whole of Pacific Latin America and the Orient to the economic impact of the United States. Let us look at Pacific Latin America first.[18] In 1913 the United States supplied about 32 per cent of Pacific Latin American imports. Britain's share was 21 per cent; Germany's 19 per cent. In 1925 the proportion of the United States was 50 per cent, while Britain's had fallen to 15 per cent, and Germany's to 10 per

[16] Clark, Evans, *New York Times*, April 28, 1928.
[17] *New York Times*, November 20, 1927.
[18] Mexico, Central America, Colombia, Ecuador, Peru, Bolivia, and Chile.

cent. In every country in South America, with the exception of Paraguay, the United States is the principal supplier.[19] In 1913 this was true only of Colombia, Venezuela, Ecuador, and Peru. Now it is true of Argentina, Brazil, Chile, Uruguay, and Bolivia as well, and there is only 1 per cent difference between British exports and American exports to Paraguay.

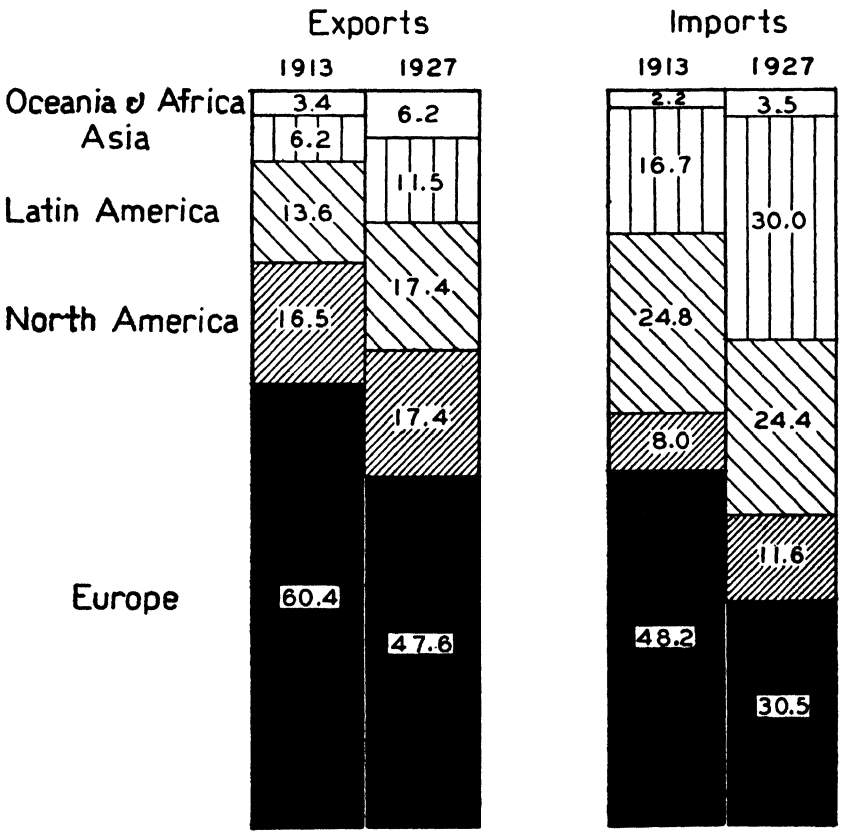
In 1913 it was an uncommon sight to see the American flag at the masthead of a merchantman, and it was a practice in certain countries south of the Rio Grande to use the mark or the pound sterling as the common denominator in exchange transactions from local to United States money. The change in these respects is phenomenal. In pre-Canal days our life was far removed from Latin America's comprehension; its news of the United States was borne by no American organization. Today, using 40,000 miles of cable, compared with 29,000 miles of line between Europe and Latin America, two American news agencies are supplying news of the United States to over a hundred leading Latin American newspapers, while a third agency provides four hundred less important newspapers with a mail service.

The Far Pacific[20] in pre-war (or shall we say pre-Canal?) days represented 12 per cent of American imports and 7 per cent of American exports; the proportions are now 30 per cent and 15 per cent. With the acquisition of the Philippines, the Pacific has been bridged by conquest, which has extended the American coastline seven thousand miles across the ocean. This highway involves a longer haul than does the Atlantic, but the liners of the Atlantic are being duplicated on the Pacific and reducing its distances. Though it has been frequently asserted that cargo vessels have passed the limit of economic size, the shipyards are continually overriding this opinion. At the twelfth International Congress on Navigation, held at Philadelphia in 1912, a proposal was mooted to limit the size of vessels to a draft of 31 feet. It was overwhelmingly rejected, the objectors foreshadowing that in fifteen years ships with a displacement of 75,000 tons and a draft of 41 feet would appear on the high seas. Their faith would seem to have

[19] National Foreign Trade Council, *Our Trade with Latin America,* p. 5.

[20] From New Zealand westward to India and northward to Japan.

been well founded, since the *Leviathan* has a displacement of 65,000 tons and a draft of 39 feet. The time may not be far distant when *Leviathans* will appear on the Pacific, and when that ocean will be the main ocean of American activities. Already the magnet of the Pacific is affecting our distribution of population, which is growing rapidly on the Pacific coast and around our southern ports.



Percentage change in the geographical distribution of the trade of the United States.

It has been computed that an increase of China's per capita imports to equal that of Japan would mean an increase of $6,000,000,000 over her present total of $600,000,000.[21] These prospects in their American relation may be illustrated by two quotations from the Orient. One is from the Japan correspondent of *British Industries*,[22] the organ of the Federation of British Industries: "Though immense strides have been made in the extension of hydro-electric enterprises in Japan in recent years, British interests have been unable to make much headway against the Americans." The next is from the Peking correspondent of the *New York Times*.[23]

Although China's seemingly endless civil wars have driven many foreign firms to withdraw from the field, those European firms which hang on hoping for eventual stabilization all look upon American firms and the American business man as the bugbear of the future. This fear that the United States will some time win and hold the bulk of China's foreign trade (Japan always excepted) is shared alike by British, Germans, French and the Belgians, and is the more remarkable because in the days before the World War "American business" in the Orient was derided as a joke. These men marvel at the rapidity with which this invasion of foreign markets is already under way by Americans, who, they say, have for generations had the mental viewpoint of pioneers who conquered the unpeopled wilderness. Now, with an abrupt shift, they are essaying victory in the most thickly settled parts of the world where trade plums are to be found.

Two other Pacific territories whose buying potentialities are reputedly great are Russia and Canada. Asiatic Russia, from Kamchatka to the Urals, awaits mineral and agricultural exploitation; some day it may be found to be important as a storehouse for the raw materials required by future American enterprise. As it is, American trade with Russia, in spite of political obstacles, has nearly doubled since pre-war years; our exports are three times in excess of the 1913 consignments. As for Canada, America's trade development with that country may be reckoned

[21] Roorbach, G. B., *Proceedings of the Academy of Political Science* (N. Y.), Vol. XII, No. 4, p. 89.

[22] May 15, 1928.

[23] June 3, 1928.

among the most outstanding of its post-war commercial achievements; its total value is now three times that of the 1913 total.

THE GOVERNMENT AND BUSINESS[24]

THE Federal government has extended its interest to business in correspondence with our new economic outlook. In pre-war years embassies and legations gave but perfunctory attention to visitors on commercial errands; today, they are clearing houses of economic information and service. Travelling agents from the Treasury, the Department of Commerce, the Department of Agriculture, the Tariff Commission and a hundred other organs are always busy on special investigations bearing on our foreign commerce. A worldwide system of trade stimulation has sprung up whose "alert coöperation with American foreign trade," to quote the National Foreign Trade Council, "is almost entirely new since the war." This is directed by the Department of Commerce through its Bureau of Foreign and Domestic Commerce, which collects and distributes data for the purpose of developing the manufacturing industries of the United States and of creating markets for their output at home and abroad. In 1926 it had 46 foreign offices, with an American personnel of 130, and $3,000,000 to spend on promoting American business abroad,[25] as compared with $173,000 in 1913. It also provides abundant statistics of commercial and business trends and a valuable credit information service. The all-pervasiveness of this branch of government service corresponds to the elevation of trade in diplomatic consideration. "As diplomatic questions today are mainly economic," said Consul General Lay of Buenos Aires, in a statement on his reasons for resigning his post, "this places the Department of Commerce in control of the substance of diplomacy, and leaves the Department of State with social representation only."[26] Even President Coolidge has said, "The business of the United States is business," while Mr. Hoover makes it the duty of government to "chart the chan-

[24] Also see Section I, "American Foreign Policy," Chapter 3, "Domestic Control," pp. 143, 147.

[25] Van Norman, *op. cit.*

[26] *Journal of Commerce* (N. Y.), April 2, 1928.

nels of foreign trade and keep them open," for which purpose William R. Castle, Jr. (Assistant Secretary of State), speaking to a convention of exporters, says, "Mr. Hoover is your advance agent and Mr. Kellogg is your attorney."[27]

In this connection, the government is endeavoring to stimulate the American merchant marine by subsidy. Before the Civil War, when American trade was an important factor in world trade, the American merchant marine almost equalled the British in tonnage. American trade carried in American bottoms in 1830 amounted to 90 per cent of the total. The carrying trade fell away as the result of American economic self-absorption. When Commodore Vanderbilt was asked why he had deserted the sea for the railroad, he replied: "That's simple. Six per cent speaks louder than 3 per cent." Government subsidies in recent years brought about a rejuvenation of shipbuilding, and American trade carried in American bottoms rose from 8.7 per cent in 1910 to 42.7 per cent in 1920. Since then, there has been a decline; the 1926 figure was 32 per cent, and at the close of 1927 it was found that the United States had dropped to eighth place in world shipbuilding activity. Our shipping is by no means maintaining the same headway as our commerce.

[27] National Foreign Trade Council at Houston, April, 1928.

CHAPTER TWO

THE UNITED STATES AS A CREDITOR NATION

As with American trade expansion, the change of America's setting in the world order from a debtor to a creditor nation was on the highroad of development in 1914. In that year, the railroads, the major reason for American indebtedness to the outside world, had attained their maximum trackage. The war left the United States in a unique situation as a creditor nation and an export surplus nation. She had been the greatest debtor nation in history, having called on European capital for the credit necessary to her own growth. The adventure had yielded profit to the creditor and such opulence to the debtor as to enable her well before 1914 to supply her own capital needs. American money, in fact, had already spilled over American boundaries, principally into Canada and Mexico, but rarely beyond neighboring territories.

The export of credit was cramped by a banking system that was created for domestic development. By 1914 the major part of these disabilities had been removed by the creation of the Federal Reserve system, but enough remained to make the United States profoundly disturbed by the impact of the war upon the domestic machinery of business. Her reliance on the financial mechanism of Europe, however, had been outgrown by natural processes. She had come of age, but did not realize it.

From a variety of estimates, it is gathered that in 1914 not more than $2,500,000,000 of foreign securities were held in the United States. On the New York Stock Exchange less than a dozen foreign government and foreign municipal obligations were listed. On the other side of the account, the United States was a debtor to European holders of American securities in at least $4,500,000,000, leaving a difference of $2,000,000,000. The war dammed up the stream of capital from Europe, which turned all its resources inward, and asked American help for more, in payment for which it consigned gold and promises to pay. The pre-war debts owed by the United States were in large part liquidated. On February 18,

1916, Reginald McKenna, British Chancellor of the Exchequer, made the first appeal to the banks of the Empire to gather in British holdings of American securities for the purpose of supplanting gold consignments in the squaring of Great Britain's war accounts with the United States. As time went on, pressure was applied in both Great Britain and France, the two most important holding countries, and by 1919 the total amount returned to this country had been estimated by Professor John H. Williams,[1] of Harvard, at $2,000,000,000. Thus the balance of payments turned heavily in favor of the United States. Added to her own resources, this inflow gave her the requisite power to assume the rôle of a creditor nation, which was greatly fortified by the centralization, and by the same token the expansion, of bank credit through the Federal Reserve system.

Foreign investment mindedness in the United States had its origin in the supply of private funds by means of which American credit was extended to the Allied belligerents. The Liberty loan campaigns mobilized the country's financial resources.

But the habits of a creditor were not easily learned. After the war we did not maintain the pace of investment in behalf of overseas countries, such as the course of history had forecast. One of the results of war is a redistribution of financial power. The Napoleonic wars partly established British financial influence through the financial resuscitation of war-prostrated Europe. France, after 1870, found international finance ready and waiting to help restore her to normality. The dominant Power after the World War was the United States, but she did not start the task of reënergizing Europe in the measure of her resources and of European needs until the appeasement of Europe had for practical purposes been accomplished, in 1923. While the Allies fought their "sort of war" over the peace, American finance held aloof, although it demonstrated on several occasions, notably through the Loan Committee set up by the Reparation Commission, that it was waiting for the opportunity of coöperation.

Finance had enough to occupy its attention while the ex-belligerents were wrestling with the political problem of Germany.

[1] Harvard *Review of Economic Statistics*, June, 1921, p. 191.

America's enlarged commercial horizon had become her financial horizon. In 1919, though over half a billion dollars was invested abroad, one-fourth found its way to Canada, while much of the remainder was distributed in comparatively small lots among borrowers not in need of rehabilitation. One or two of the loans, indeed, were speculative undertakings, such as a Chicago loan to the Chinese Government subscribed for the most part by war-enriched Middle Western farmers, with unhappy results. Meanwhile, Belgium's condition was becoming desperate, and a loan from the United States was arranged in 1920 to refund short-term credits totalling $50,000,000, which had been extended for wheat purchases. This loan provided the United States with her start in the large-scale financing of European reconstruction. Joseph R. Swan, President of the Guaranty Company, New York, describes the operation in these words:[2]

> After long and careful deliberation, a loan bearing 7.5 per cent interest, payable by lot at 115 over a period of 25 years, was agreed upon. Every resource of publicity was used, and finally, urged on by the feeling that the sympathy of the American public would respond to Belgium's appeal for aid, in June, 1920, a nation-wide banking group, composed of the strongest banks and bankers in the country, was organized to issue $50,000,000 bonds. The subscription books were kept open for three days, a very unusual procedure; every resource the banker could command was used to induce subscription, and finally the books were closed with a subscription of $53,000,000. The loan was oversubscribed and a very vital step forward in our entry into the field of international finance was accomplished.

Subsequently, Belgium got an industrial loan, and Italy was helped substantially, but these transactions did not touch more than the fringe of European reconstruction, or deflect the course of American investment toward those fields where new American trade was in course of consolidation. The Bankers Trust Company of New York, in a circular entitled *The Dominion of Canada*, issued about this time, alludes to the great amount of Ameri-

[2] *Proceedings of the Academy of Political Science* (N. Y.), Vol. XII, No. 4.

can capital filtering into Canadian enterprises; about six hundred American-owned plants, it is stated, were then operating in Canada as compared with about a fifth of that number in 1914. Canadian and American finance had simultaneously developed a close relationship; many Canadian capital issues were sold jointly by syndicates composed of houses of both countries. In 1921, 48 out of the 73 issues on the American market were for Canadian account, amounting to nearly two-thirds of the new capital sent to Europe. In addition, Latin America was beginning to enter into the investment picture, taking even more funds in 1921 than debilitated Europe. It was the same in 1922. Canada and Latin America absorbed more funds than Europe, while the Far East was not far behind. In 1923 financial coöperation with Europe got under way. The League of Nations prepared a scheme to raise a loan for the rehabilitation of Austria of which the United States furnished $25,000,000. Hungary was next retrieved from ruin. Germany was set upon her feet by the great Dawes loan, of which over half, or $110,000,000, was contributed by American investors, whose savings, encouraged by the subsidence of political animosities, began to permeate Germany even down to the humblest municipality anxious to erect a municipal gymnasium.[3] In time most European countries obtained access to the American money market. Borrowing took place to balance budgets, to transfer floating debts to the United States, to liquidate successive bank note issues, to restore bank reserves, and to bring the nations back to the gold standard. Then Europe required funds to reconstruct war-dislocated industry, to institute schemes of rationalization—all either bringing life to moribund plants or energizing European commerce. Meantime credits to non-Europe deepened and widened. The expansion of these undertakings abroad is illustrated in the following table of American loans in which a comparison is made with the British figures for the same period:

[3] See Section IV, Chapter 1, "Reparations," for details of these financial operations.

FOREIGN CAPITAL ISSUES COMPARED WITH TOTAL CAPITAL ISSUES OFFERED IN THE UNITED STATES AND IN THE UNITED KINGDOM[4]

	United States			*United Kingdom* (c)		
	Foreign issues (a)	*Total issues* (b)	*Foreign per cent of total*	*Foreign issues*	*Total issues*	*Foreign per cent of total*
	Million	*Million*		*Million*	*Million*	
1920	$ 585	$ 3,635	16	$ 218	$ 1,406	16
1921	631	3,082	18	445	831	54
1922	682	4,273	16	599	1,044	57
1923	414	4,304	10	622	931	67
1924	928	5,593	17	593	988	60
1925	1,085	6,220	17	424	1,062	40
1926	1,135	6,344	18	546	1,231	44
1927	1,376	7,735	18	674	1,530	44
Total	$6,836	$41,186		$4,121	$ 9,023	

(a) Source: Finance Division, Department of Commerce. Figures are for par value minus "refunding to Americans."

(b) Source: *Commercial and Financial Chronicle,* par value minus "estimated refunding."

(c) Source: Midland Bank, converted at the average annual cross rate of the Federal Reserve Board. The bank's figures are at price of issue, exclusive of all refunding issues.

These figures are not strictly comparable, inasmuch as the British table is based on issue prices, whereas the American table gives nominal value. The American figures, accordingly, should be reduced by about 4 per cent. The Department of Commerce also provides range estimates of long-term investments at the end of 1927. The list,[5] which makes allowance for bond redemption and sinking fund payments, is as follows:

Latin America	$4,322,000,000 —	$ 5,222,000,000
Europe	3,171,000,000 —	3,671,000,000
Canada and Newfoundland	3,037,000,000 —	3,537,000,000
Asia, Australia, and the rest of world	970,000,000 —	1,070,000,000
	$11,500,000,000 —	$13,500,000,000

The foregoing figures are assumed to consist of nominal capital in the case of securities and of original outlay or of present capi-

[4] Department of Commerce: *Commerce Reports,* May 14, 1928.

[5] Department of Commerce: *International Balance of Payments of the United States in 1927.*

talized earning power in the case of investments in physical properties. To them must be added $11,000,000,000 of war debt, which would bring the aggregate American investment abroad up to roughly $25,000,000,000, as compared with Britain's total of $20,000,000,000, which, incidentally, was the 1913 total, although British investment has decreased in real value by the advance of prices.

This upcurve in the financial accommodation of foreigners has raised New York to fourth place in the world's international security markets. As becomes a nation that exports 50 per cent of its savings, England is in a class by herself. On January 1, 1927, the London Stock Exchange quoted no fewer than 820 foreign and colonial government issues; Paris, 265; Berlin, 153; and New York, 138. If not approaching London, New York is rapidly ranking with the bourses of Paris and Berlin in spite of the drain of America's internal requirements. At the end of 1927, the total foreign issues of all kinds quoted on the New York Stock Exchange constituted 12 per cent of the total listings, of which 6½ per cent were foreign government bonds and 4½ per cent foreign corporation bonds. Our foreign commerce bears about the same relation to our domestic commerce, but as the Stock Exchange does not reveal the full extent of capital employment abroad, the similarity is coincidental. According to the compilations of the *Commercial and Financial Chronicle*,[6] the new capital issues in the United States for external purposes represented 20 per cent of the total flotations in 1927. The Department of Commerce, in the table we have given, places the proportion at 18 per cent, as compared with 44 per cent in Great Britain. The ratio of foreign to home investment is tending to rise, but in all likelihood the distance between the two classes will be approximately maintained, for the reason that the economic exploitation of the United States should continue for many more generations to afford ample opportunity for intensive capital employment. Investment in both classes should advance together, and, in the present exigencies of the capitalistic system, domestic exploitation will build up wealth for future export.

[6] January 21, 1928, p. 302.

The wonder is not that American foreign investments have increased so fast, but that they have not increased faster, first, because of the amplitude of funds, secondly, because of the consequent low yield of home issues, and, thirdly, because of the growing scarcity of gilt-edged securities to take the place of the public debt now in course of extinction. High-class dividend-paying stocks listed on the New York Stock Exchange at the end of 1927 were in many cases yielding not more than 3 per cent to 4 per cent net on their quoted values. The average dividend of foreign securities underwritten in the United States for the years from 1924 to 1927 inclusive were respectively 6.08, 6.10, 6.17, and 5.77.[7] The international loans floated under the auspices of the League of Nations are even more profitable, yielding an average return of 7.79 per cent, besides an average appreciation up till the middle of 1928 of $123.30 per $1,000.[8] Logically, this state of things is tantamount to the exercise of pressure toward the export of capital. As matter obeys the law of gravity, so capital responds to the attraction of the highest interest. It may be that the amounts given in the official tables are under-estimated because of the difficulty of computing private issues, corporation financing in behalf of foreign subsidiaries, and individual purchases of foreign internal loans. Who could assess the extent of the American financial interest in foreign corporations? For instance, in 1927 the Italian Super-Power Corporation was formed. According to report,[9] the General Electric Company "would own substantial, but not controlling, interests in nearly every important Italian electric company," with representation in the management and directorate. There must be financial aspects of this connection that escape official estimation. Then, serious difficulties would arise in reckoning the extent of the American ownership of Canadian bank stock, of the American interest in French internal bonds, or of the American financial share in multitudinous other phases of the world's economic activity.

Even with the figures at hand the record testifies to the remark-

[7] Department of Commerce: *The Balance of International Payments of the United States in 1927*, p. 21.

[8] Winkler, Max, Report issued by the Foreign Policy Association, June, 1928.

[9] *New York Times*, January 20, 1928.

able change in the financial habits of the United States. It is erroneous to suppose that subscriptions to foreign bonds are furnished only by wealthy persons and large institutions. Dwight W. Morrow[10] has answered the question "Who Buys Foreign Bonds?" In an inquiry conducted by J. P. Morgan & Co., five loans were investigated with the coöperation of bankers in different parts of the country who had sold bonds valued at $91,031,800. Eighty-seven per cent of the total number of buyers took $5,000 or less of these loans, and this class subscribed 51 per cent of the total amount investigated. "The answer to the question about who buys foreign bonds is clear," concludes Mr. Morrow. "The purchasers are people all over the United States." The Liberty loan campaigns account for this transformation in our investment habits; in rapid succession government bonds valued at more than $20,000,000,000 were issued and more than 22,000,000 persons purchased them. "It is estimated that today there are, in round figures, upward of 15,000,000 investors in the United States, an average of one person in every eight."[11] These investors, as Mr. Morrow's figures reveal, are showing increasingly less concern over the fact that their savings are destined for employment abroad. With their wealth flowing overseas, Americans must inevitably be concerned with events overseas, since the safety of American investments today is directly affected by such happenings as a conference on the Chinese tariff in Peking, the discussion on the priority or otherwise of German reparation payments over the service of private loans, a revolution in the Balkans, the stabilization of the franc, or even a strike in a South American mine. This is one reason for the space now devoted to foreign news in the American press.

During the war much of the trade with Europe was extraordinary in the sense that it was neither continuous nor capable of being built upon. Similarly, during the immediate post-war years, the financing of Europe was extraordinary, for much of the credit was extended for the purpose of reclaiming national structures from credit paralysis. The credit extended to non-Europe, however, was part of the readjustment in American foreign economy.

[10] *Foreign Affairs* (N. Y.), Jan., 1927.

[11] Stone & Webster and Blodget, Inc., *One Thousand Dollars a Second,* p. 11.

American dollars fulfilled some noteworthy extraordinary functions, such as balancing Latin American budgets and helping to rebuild Japan after the 1923 earthquake, but they were principally supplied to finance industrial enterprises.[12] Since 1913 one-third have gone into corporation issues, half of which are represented by public utilities, railroads, and banks. The drift toward corporate financing is borne out in the statistics for 1927, which show that the money lent to foreign companies almost equalled the amount invested in foreign governmental, provincial, and municipal issues. Bond issues predominate, and only 6 per cent of American issues since 1913 have been in stocks. American investors are not yet taking the managerial interest in foreign enterprises such as distinguishes British investors.

FINANCE AND COMMERCE

WHAT we describe as a money drift is in most cases a goods drift, the loans being long-term credits, explicitly or implicitly, for commodity supplies. In a loan to a Japanese public utility, say, dollars or gold are not sent to Japan. A credit may be opened in the United States for the public utility concerned. If it requires electrical equipment, it may be given credit locally to the extent of the open dollar credit in the United States, the claims on which would be presented to the American bank by American manufacturers. This is how the surplus of American plants is helped to find a market. Japan, in the eyes of our competitors, seems to illustrate the alliance between commerce and finance in the extension of American enterprise abroad. *British Industries*,[13] the organ of the Federation of British Industries, contains the following suggestive comment:

By close coöperation between finance and industry they [the Americans] have obtained such a hold over Japanese industrialists that British representatives on the lookout for orders have frequently been forced to suspend negotiations because the people with whom they are negotiating prove to be subsidiaries of, or in some way con-

[12] For details of American loans, see special yearly circulars, 1914-1927, of the Finance and Investment Division of the Department of Commerce.

[13] May 15, 1928.

nected with, some leading concern, which steps in with the intimation that they are bound by financial agreements to give preference to American machinery or other material.

This is the direct form of the interlocking of finance and commerce. In the indirect form it has been illustrated by Hartley Withers,[14] who traces the relation between finance and trade in a hypothetical loan raised in London by a South American state for the purpose of building a railway:

> It [the state] may spend the proceeds on steel rails made in Belgium or the United States, but the Belgian or American sellers of the goods in question will take payment in sterling drafts, because sterling credit is all that the borrowing government has got for making payment for them, and either they, or someone else to whom they pass the credit on, must buy something in England, for England is the country, and the only country, where the particular kind of money that has been borrowed passes current in exchange for goods and services; if it is going to be spent at all—as it certainly is—it has to be spent here finally, however often it may have in the meantime changed hands abroad, and been converted into foreign currencies.

Post-war experience has shown in other areas how fruitful has been this partnership between American finance and American commerce. The financing of Germany led to a 32 per cent increase in American exports to Germany in 1927. In Latin America, according to the National Foreign Trade Council, American trade "rests on a solid triangle of investments." These examples, relevant to the loan *qua* loan, involve in most cases payment in goods; there is also the explicit long-term commercial credit of the exporter, financed by the banks. This method of selling is important inasmuch as credit is the handmaid of modern commerce, and in its foreign application has the same use as it has in cultivating domestic purchasing power. "The day is fast passing," says a recent resolution of the National Association of Credit Men,

> when export markets can be considered only as a field for cash or secured transactions. Reasonable credit must be extended to the responsible foreign buyer. Credit has become the foundation of our

[14] *Commercial and Financial Chronicle*, May 16, 1925.

domestic business structure, and in order to build a sound and comprehensive trade in foreign markets, we must have the same foundation and protection, solidifying it by vision, judgment, and experience.

There is another reason for this need for credit for customers of our goods. It is that there is a political indisposition in the United States to receive goods for goods to the point where our imports will outstrip our exports in our merchandise account. This "political" emphasis on exports is lacking among those creditor nations who have abandoned mercantilism as a national policy. Says Benjamin M. Anderson, Jr.:[15]

> The desirable thing would be, of course, such a freedom in the international markets that goods could pay for goods, with only short-term bank credits, in the form of acceptances, used to mediate the transactions. When exports can be paid for by imports, these credits are kept easily revolving, and the total needs to grow only with a growth in the international movement of goods.

Political exigencies frustrate this desirable consummation in the United States; hence, we must not only return in loan more than we receive in interest, we must supply people with the means of buying our goods if we wish to remain at one and the same time a creditor nation and an export surplus nation.

The argument of the necessity of the hand-in-hand operation of national finance and national commerce must not be strained too far. There are benefits to a manufacturing nation accruing from the general activities of international finance. A. P. Winston[16] observes that a nation's lending does not necessarily enable it to sell materials. He cites the railways in intramural China as proof of this contention. China, however, is a peculiar case; much of the financing of Chinese railroads was not economic, but political. French capital was used for this purpose, for example, not in the interests of French economy or of Chinese development, but to bolster up Tsarist imperialism, and much of the supervision provided for was as much political as economic. In

[15] *Chase Economic Bulletin*, Vol. 7, No. 4, p. 28.

[16] *American Economic Review*, September, 1927. "Does Trade Follow the Dollar?"

fact, the French manufacturers in 1914 complained that French financiers pursued their operations in the East regardless of the commercial interests of France. Though this type of financial exploitation is not common, it is true that money borrowed in one market is often spent in another, but this is of moment to the United States, no matter whether, as Hartley Withers suggests, goods must ultimately be bought in the lending country in cancellation of the debt. The United States is sometimes benefited by being included in this triangular system of settlement. A notable example is furnished by the South Manchuria railway. This railroad has drawn largely from the London money market, but has not borrowed a cent from the United States, yet it spends not less than $2,000,000 yearly in this country. If we have to spend this $2,000,000 in Great Britain, it is ours by trade, and we reap the advantage of the transaction. Finance may blaze the trail in its own way, but it will inevitably lay the foundation for the trade best fitted for the markets it opens up; and it is primarily in the opening up process, by whomsoever financed, that American commerce is nowadays interested. It follows that American self-interest coincides with the abstract ideal of international relations in encouraging the application of the open door to foreign employment of capital.

Our remarks in the chapter on commerce show that economically we require the products and markets of non-Europe more than those of Europe. Our tariff policy has intensified our economic emphasis on non-European imports. It follows that there is a commercial impetus in the financial development of non-Europe.

Just as the New World provided Europe with the greatest capital market in history, so the vast Pacific expanses in Australia, Canada, western China, Siberia, and Latin America may one day constitute for American capital, and therefore commerce, its natural theater of operations. A forward movement in this direction is still impeded by two difficulties. These account for the fact that, strange as it may appear in the light of the above catalog of recent American and British lending operations, post-war foreign investment, reckoned according to pre-war values, has not yet reached its pre-war volume.

The first difficulty lies in the modern political disturbances in the economically backward areas, caused partly by internal dissension and partly by the spread and intensification of the idea of nationality. These disturbances will always keep capital at a distance, but another factor is nowadays involved—the potential debtor's charge that international finance is concerned with the exploitation of sovereignty as well as of territory. This is a problem for world statesmanship, a problem that grows more pressing with the opening up of new markets and with the competitive power of modern industrial nations. There are signs that the Western world is willing to recognize political forces in certain capital-receiving countries against extraterritoriality and other such peculiar institutions as have hitherto been called for in the protection of foreign interests. The League of Nations, the Pan American Union, the Chinese Consortium, and other forms of international organization are also trying to reconcile the fears of politically weak nations with the need of investment capital for protection. As it is, however, the suspicions of the economically inferior countries have gained articulation *pari passu* with Western progress toward internationalization. Conditions are different in countries which have a stable government. Canada is going through the same process as the United States has gone through; outside capital is opening up her natural resources, and building up a future Canada capable of taking a front rank in the comity of economic nations. There is no cause, and therefore no suspicion, of invasion of sovereignty in this experience. Sir Robert Horne has said: "I am glad to see American capital developing Canadian resources. It is much better that those resources should be developed than that they should remain in abeyance."

The second impediment to the employment of capital in large-scale development schemes is the temporary eclipse of continental European money markets. This is one phase of the incompleteness of European reconstruction. Monetary instability in Europe has caused many European countries to keep reserves in New York. It has involved a constant exchange of funds between Europe and America, diminishing the net exportation of American capital, and tying it up in a bewildering exchange of floating balances, all

intent on picking up interest in constantly changing markets. Authorities estimate foreign demand balances in the United States at varying amounts. Secretary Mellon[17] puts the figure at $2,000,000,000; others estimate it at nearer $1,000,000,000. Whatever the total, it is an unsettling factor in financial relationships, because any sudden withdrawal of foreign funds may bring about credit restriction in the United States. A stable Europe is essential to the confidence of American finance and American business in initiating large-scale undertakings because it would put an end to the extraordinary circulation of short-term funds.

BALANCE OF INTERNATIONAL PAYMENTS

No true reading of America's economic position is possible without an examination of the balance of payments. A misapprehension, for instance, would be created that the statistics of foreign issues floated in the United States constituted the extent of the capital exportation of the United States. The fact is that this total must be reduced not only by the amount of loan refunded but also by many other offsetting items. Foreigners are buying American securities. They are redeeming existing debt and buying back their securities from Americans. *Vice versa*, Americans are buying foreign securities issued abroad. These transactions represent only a few of many immeasurables arising from the fluctuations of security ownership which must somehow be estimated in computing the true situation of "private funded-capital" movement to and from the United States. We find that the money we send abroad in this category of long-term items exceeds in total the money sent here, as appears by the table below. This shows "net export of capital" after all "private funded-capital" items have been taken into account. In 1926 "net nominal" investment (investment less refunding) was $1,135,000,000; but the "net export of capital" was only $604,000,000. Similarly in 1927 the investment figure should be reduced from $1,376,000,000 to $671,000,000.

This net capital export would be still further reduced if the amount of the above-mentioned demand deposits were subtracted.

[17] *Annual Report of the Secretary of the Treasury*, 1927, p. 71.

As we have pointed out, the United States is not only lending long, but is borrowing short, and the inflow of short-term funds from abroad for safekeeping and other purposes diminishes considerably the net export of capital. Then, much of the long-term money borrowed from the United States remains on deposit in American banks, a condition of things tantamount to re-lending by our debtors and therefore significant of what the Midland Bank (London) calls "an alleviation of foreign debtorship to the United States." Mr. Mellon estimates that over $2,000,000,000 is held here, but as we also have demand balances abroad, the Department of Commerce has investigated both the debit and the credit side of the item, the result indicating a sum of $1,052,000,000 in our net short-term indebtedness to foreigners.[18] This item is called "net change in international banking accounts" in the table below, but for 1927 a blank has been left against it, since the department could not accept the results of an admittedly imperfect investigation as reasonably accurate. If the department's investigation had been accepted the United States in 1927 would have appeared as an *importer* of capital! The department's task in assessing our position as a deposit-holding nation is extremely complicated by the bewildering shifts to which capital is nowadays subject. This situation has turned the leading industrial nations into what the *Economist* describes as "hybrid sorts of debtor-creditor communities," or nations which are subject to incessant ebbs and flows of financial activity and capital movement. It is a situation that must be borne in mind by those who criticize American lending on the ground of loss of capital.

Many other items enter into our balance of payments and must be appreciated in the appraisal of our creditor position. Here we gain more measurable ground than that of the financial relationships, but it still remains fairly intangible, despite the refinements of statistical method introduced by the Department of Commerce. The only visible item is our trade balance, which in 1927 showed an export surplus of $527,000,000, but nowadays our commodity

[18] Department of Commerce: *The International Balance of Payments in 1927*, p. 45.

exchanges represent only five-eighths of our total transactions with foreigners. Mr. Hoover says, "Our foreign trade is now in an era of big invisibles," meaning not only financial debits and credits but the movements of funds by tourists and immigrants, the yield of investments, and a battalion of other transactions with the external world. These exhibit the law of compensation at work in our national account, hidden from view by "credits and debits fighting in the dark against each other," as the Hon. George Peel puts it. The debits help to adjust the credits, and the way in which it is done will enable us to answer such questions as: How are we "receiving" payment for war debts? How shall we accept payment of interest on our foreign loans? Why is it that the United States does not show an import surplus in her merchandise account? Creditor nations as a rule receive payments on account of foreign loans in goods, which would be entered on the debit side of the national account as "surplus of merchandise imports." In the United States we are increasing our imports relatively to our exports, showing that we are receiving some part of our interest and our war debt payments in goods, but on balance the world is in debt to us in the exchange of commodities. Our tourists, our financiers, and our immigrants are engaged in putting funds into the hands of foreigners by way of helping to offset our gross creditor position.

So important is our balance of payments that it might be described, as A. G. Everett[19] has described it, as "largely a review of American national life, a reflection of the nation's international social activities, a reflection of many national habits and customs, and in some degree a measure of its international policies and politics." Although exactness is impossible, the information being buried in incalculable debits and equally incalculable credits, our record is becoming clearer every year, thanks to the Harvard Business School, which started this inquiry in methodical fashion, and to the Department of Commerce, whose researches since 1922 have commanded world-wide attention and appreciation. The following table is adapted from the detailed data prepared annually by the department:

[19] *American Bankers' Journal,* September, 1927.

DEBITS

	1922	*1923*	*1924*	*1925*	*1926*	*1927*
Total of private-funded capital items (net export of capital)	638		522	432	604	671
Freight (net)		8		8	61	32
Tourists	300	400	500	560	567	617
Emigrants (net)	325	290	300	310	218	206
Charitable and missionary contributions	75	70	55	50	46	43
Surplus of gold, silver, coin, bullion, and currency	246	246	272		50	
Net change in international banking accounts				61		
Miscellaneous	16	19	5	5		
Errors and omissions			4			
	1,600	1,033	1,658	1,426	1,546	1,569

(*in millions of dollars*)

CREDITS

	1922	*1923*	*1924*	*1925*	*1926*	*1927*
Surplus of merchandise exports	734	388	970	666	244	527
Yield of investments (net)	225	417	464	355	467	514
Total of private-funded capital items (net import of capital)		109				
War debts	126			160	195	206
Motion picture royalties (net)	50			75	71	71
Freight (net)	7		8			
Miscellaneous					24	58
Net change in international banking accounts	375	3	216		359	
Surplus of gold, silver, coin, bullion, and currency				106		187
Errors and omissions	83	116		64	186	6
	1,600	1,033	1,658	1,426	1,546	1,569

(*in millions of dollars*)

These figures show that America's international turnover last year was approximately $18,200,000,000, or a per capita transaction of $152 with foreigners, and reveal the manner in which "the jurisdiction of the trading world of today is broader than the jurisdiction of any of the governments whose citizens appear as traders on the world's markets."[20] When the human activity measured in the figures is borne in mind, it will be appreciated how inextricably our social and economic life is internationalized.

[20] Adams, Henry Carter, "International Supervision of Foreign Investments," *American Economic Review*, March, 1920.

CHAPTER THREE

STATE DEPARTMENT SUPERVISION OF FOREIGN LOANS

THERE is no consistent basis of policy in any country for the protection of the rights and interests of a national outside of the territorial jurisdiction of his government.[1] Doctrines there are in plenty, but neither an international law of bankruptcy nor a universally accepted code of arbitration is in operation. In the United States the expatriate or traveler may choose between Bryan's "When you go abroad you have to take your chances" and Coolidge's "The person and property of a nation are a part of the general domain of a nation, even when abroad." Yet the question is bound up with our increasing overseas interests and political commitments, and must be borne in mind in any consideration of governmental supervision of the country's money lending. Supervision as a general policy is as recent as our own lending activities; it developed after the war in conformity with America's transformation from a debtor to a creditor nation. Whereas in 1914 we owed foreigners about $4,500,000,000, we are now creditors to the extent of $25,000,000,000, inclusive of war debt. The metamorphosis in our financial relation to the world is the occasion for the intervention of the Federal Government. True, this relation, save for the war debt, is a private one between the American investor and the foreign borrower, but the lender is also a citizen of the United States, and his overseas undertakings affect his citizenship and might run counter to the conduct of our foreign relations. A case in point was that of a proposed loan on the New York market for the construction of a dam across the Blue Nile. It seemed as if this were a plain business affair between American and Abyssinian interests; but tentative conversations produced the information that Abyssinia was under certain restrictions by agreement with Great

[1] This general question will be treated in a future volume, and the effect of American loans on borrowing nations, such, for example, as those to Central American republics, will be treated in connection with the specific problems to which they have given rise. We are here concerned with the new modus ushered in by the policy laid down by the State Department in 1922.

Britain, France, and Italy, which would have invested the enterprise with a certain international delicacy. A private undertaking might thus assume much wider dimensions in its implications of responsibility than is conveyed in the simple relations between lender and borrower.

In its concern with lending operations the government is merely following the precedent marked out by other lending nations. In British practice it is difficult to trace the connection between official supervision and foreign loan-making. Even its existence has been denied by government spokesmen. Speaking in the House of Lords on March 2, 1922, Lord Crawford said, "There is no government control over capital issues and it is the policy of the government not to intervene between foreign governments and potential lenders in this market." No overt intervention probably, but there can be no doubt that the government has expressed its interest in relations whose effect on British policy has been amply attested in history. Commenting on the Crawford statement, Dr. Arthur N. Young, economic adviser to the State Department, stated at the 1924 conference of the Institute of Politics at Williamstown, "It is understood to be the practice of issuing houses that intend to bring out such loans to make known the facts to the Bank of England, thus affording opportunities for consideration of any objections that might be presented to particular transactions." Dr. Young's guarded phraseology is a testimony to the lack of definition or formulated policy in Great Britain; there are now no "laws" in operation governing capital exportation, but there is an all-pervasive influence, and this seems to be exercised by the Bank of England in consultation with the Treasury or the Foreign Office, perhaps both. It is apparent that the government relies upon the bank to see that the ramifications of investment banking do not run athwart national interests. The bank's paternal relation with other issuing banks is the result partly of its peculiar position and partly of a long tradition of coöperation. Division of risks is so general that practically all major financial transactions are handled by a pool of banks under the aegis of "The Bank"; this has developed a community of interest. Any lapse from the self-discipline of British investment banking re-

veals the presence of a certain official watchfulness. In 1912 the so-called Crisp loan to China was put through by an independent syndicate prior to a reorganization loan by an international banking consortium in which British policy was vitally interested. When the chief promoter, C. Birch Crisp, called at the Foreign Office, he was informed that "His Majesty's Government were not, of course, in a position to put pressure on the syndicate interested in the loan, but they could put considerable pressure on the Chinese Government and would not hesitate to do so at once."[2] Nevertheless, the Crisp loan went through, but it has never received the same attention in official representation which has been accorded to other loans whose service has been in dispute with the financially embarrassed Chinese Government. Another example was furnished when the Midland Bank was recently constrained to drop a proposal to lend money to Russia. In spite of an occasional recalcitrancy, the Bank of England's oversight of lending activities abroad is effective, even if informal, and the result is that the stream of British overseas investments in general flows in the bed of imperial interests.

Switzerland follows the British model in respect of regulation by "understanding." The 1927 report of the National Bank says:

> It is agreeable to note that the large Swiss banks, almost without exception, have kept the central institution advised of all lending operations that were contemplated. We hope that the same practice will be followed in the future.

The British practice of investment differs radically from what is called the continental system, of which France is the leading example. Traditionally, the British prefer to invest their capital in a British stock company, with its board of directors and its bank account located in London; the French lend theirs, buying government bonds or securities in ventures managed by other than Frenchmen. The one method produces the attitude of mind of the stockholder, the other that of the *rentier*. In "political" loans, also, France used to be much more venturesome and "un-

[2] British Blue Book, China, No. 2, 1912. Quoted by George W. Edwards, *Investing in Foreign Securities*, p. 277.

businesslike" than the British, and, in consequence, in 1914, the Association of French Manufacturers felt constrained to protest against a system that had become increasingly unmindful of French industrial requirements.

The French regulate capital exportation by law, as the British did in the days of Walpole, and as the Dutch did in 1700, when a decree was issued against "foreign loan transactions without consent." In France it is deemed the duty of the government to control the export of the nation's savings. Government consent must be obtained before loans can be floated for overseas borrowers, and listing on the Bourse is controlled through the Minister of Finance in consultation with the Minister for Foreign Affairs. This was revealed in 1909 when, acting in the interests of the domestic metallurgical industry, the French Government refused to admit the stock of the United States Steel Corporation to listing privileges on the Bourse. The Chamber of Deputies keep a watchful eye over all activities in connection with this control, which gained its most specific exposition in 1912 from Raymond Poincaré, and for this reason has been called the "Poincaré doctrine." In that year, when Poincaré was Premier, the Turkish Government applied to the French banks for a loan. The Ministry refused permission to "list" the issue, and the Turks floated the loan in Berlin. Answering those critics of the Left who wished to know why the Ministry of Finance favored reactionary Russia and not revolutionary Turkey, Poincaré said that investigation had shown that the Turkish Government sought financial accommodation to increase its artillery equipment, and, since its existing artillery had come from the Krupp works in Germany, it obviously intended to place its new order with the same organization; the Turks, in fact, had refused to consider buying their equipment from the Creusot factories in France. To sanction the loan would mean that the savings of the French people would be used to keep the Krupp works busy while the munition plants of France were idle. The government had refused to endorse a financial transaction in which French capital would be exported to develop the munition industry across the Rhine. The accumulated savings of the nation, Poincaré maintained, were as impor-

tant a part of national defense as the nation's soldiers, and the government could no more permit bankers in time of peace to lend capital abroad contrary to the national interest than it could permit the General Staff to lend an army corps to the enemy in time of war. Poincaré's exposition resulted in a vote of confidence for his government, and the Chamber, though sometimes charging corruption and lack of judgment, have always accepted the principle of governmental responsibility as outlined by Poincaré, although the Poincaré doctrine has not always been the guiding principle of loan-making, as the 1914 protest of the French manufacturers and the loans to Russia bear out. Practice even in France is not so rigid as theory.

Supervision in pre-war Germany was exercised by a Listing Office, and it was instituted primarily with the view of protecting the investor against fraudulent issues.

The present tendency of American financial operations abroad is toward the French model in that a large percentage of our foreign holdings are in the form of government and municipal bonds. How long that tendency will continue is conjectural. The policy of the government in respect of supervision of these operations, however, leans more toward the British practice. In common with all other lending nations, the United States during the war instituted strict control over American financial operations abroad, but it was extraordinary control, and as such has no bearing on this discussion. In May, 1919, the government lifted certain war-time restrictions, but the Treasury still required notification of all financial transactions with the outside world. The government at this time was trying to insure the repayment of war debts, and could not view with favor the export of American capital in such manner as to neutralize the effect of war debt representations. It might therefore be assumed that the government was more concerned to settle the intergovernmental indebtedness than to control the power residing in American exportable capital. Yet the government could not ignore the mounting total of American holdings overseas without ignoring a vital factor in foreign relations.

In the summer of 1921, President Harding invited a group of

investment bankers to the White House to discuss the formulation of a policy, which was framed in a public announcement from the State Department on March 3, 1922, reading in part as follows:

> The flotation of foreign bond issues in the American market is assuming an increasing importance and on account of the bearing of such operations upon the proper conduct of affairs, it is hoped that American concerns that contemplate making foreign loans will inform the Department of State in due time of the essential facts and of subsequent developments of importance. Responsible American bankers will be competent to determine what information they should furnish and when it should be supplied.
>
> American concerns that wish to ascertain the attitude of the department regarding any projected loan should request the Secretary of State, in writing, for an expression of the department's views. The department will then give the matter consideration and, in the light of the information in its possession, endeavor to say whether objection to the loan in question does or does not exist, but it should be carefully noted that the absence of a statement from the department, even though the department may have been fully informed, does not indicate either acquiescence or objection. The department will reply as promptly as possible to such inquiries.
>
> The Department of State can not, of course, require American bankers to consult it. It will not pass upon the merits of foreign loans as business propositions, nor assume any responsibility whatever in connection with loan transactions. Offers for foreign loans should not, therefore, state or imply that they are contingent upon an expression from the Department of State regarding them, nor should any prospectus or contract refer to the attitude of this Government. The department believes that in view of the possible national interests involved it should have the opportunity of saying to the underwriters concerned, should it appear advisable to do so, that there is or is not objection to any particular issue.

This was the manner in which the government heralded its interest in the flotation of foreign securities on the American market. It essayed neither supervision nor control. As is made clear by the department when it extends approval to any loan application, no responsibility is assumed for its future, nor does it presume to pass upon its merits as a business proposal. "It should

be clearly understood that the Department of State has no express legal relation to the flotation of foreign loans in the American market," says Dr. Young. The attitude is expressly one of watchfulness in the country's larger interests of foreign relationships. It seeks (and has obtained) the coöperation of bankers, and its checks are applied so informally as to rely upon telephonic and verbal communication. But the departure augured an intervention whose significance lay both in the public interpretation of responsibility and in the development of policy out of concrete cases.

No matter how mild it is, any governmental action has unique and dominant implications. A request becomes a command when it emanates from a government department. To the bankers the request for coöperation was agreeable enough, for, apart from their desire not to impede the attainment of national objectives in the domain of foreign policy, the imprimatur (if the action of "passing" a loan application may be so called) of the State Department on any issue would connote a certain, if ambiguous, standing for the bonds to be marketed. It follows that any other course than acquiescence in the department's wishes or acceptance of its ban would make it difficult for the issuing house to dispose of its loan to the American investor. It is a fact that to the average investor government approval holds a signification which the State Department has been continually at pains to dispel. He has gone so far as to imagine that such approval, which is now tacitly carried by any foreign loan publicly issued, would involve the sponsorship of the government for the safety of his investment. That the department felt some consideration for the investor was revealed during the course of the discussion in 1927 as to whether or no private German loans had priority of service over reparations remittances.[3] Secretary Kellogg, speaking before the Council on Foreign Relations on December 14, 1925, said:

While the department has not thought itself called upon to object to such loans to German municipalities and states as being against the public interest, it has called the bankers' attention to the fact that indiscriminate loans to municipalities and states were not, it

[3] See Section IV, Chapter 1, "Reparations," p. 393 ff.

was believed, favored by the German Government, and might raise serious questions of transfer of funds sufficient to pay the principal or interest of such loans.

Bond salesmen would be lacking in the enterprise usually associated with their calling if they failed to suggest an interpretation of official sponsorship. In a loan to San Salvador floated in 1922, the contract provided that in case of differences between the borrowing government and the bankers, such differences should be submitted to the arbitration of the Chief Justice of the Supreme Court of the United States; and the bankers' circular to potential investors carried the statement:

> It is simply not thinkable that, after a Federal Judge has decided any question or dispute between the bondholders and the Salvador Government, the United States Government shall not take necessary steps to sustain such decision. There is a precedent in a dispute between Costa Rica and Panama in which a warship was sent to carry out the verdict of the arbiters.

The statement was immediately repudiated by the State Department, which has always insisted that its approval must not be regarded as the corollary of government credit or as any indication that the American Government would become a collecting agency in the event of default. In an address at a dinner of the Near East Relief Association on October 24, 1924, President Coolidge endorsed a pronouncement made by Elihu Root at Buenos Aires in 1906 by saying, "American investors receive no assurance that their loans or agreements will be supported by American arms. It is not, and has not been, the policy of this government to collect debts by force of arms." Even when the State Department might approve a loan to a foreign applicant, factors might supervene to prevent flotation. Such a situation is believed to have arisen over a proposed loan to the Japanese-leased South Manchuria railway in 1927. It is understood that State Department approval had been secured, but that the opposition from China made the bankers uncertain as to the receptivity of the market, and so prevented the issue at the time.

The 1922 announcement has brought forth the following ob-

jections: first, to loans to nations which have not funded their war debts to the United States; secondly, to loans to assist monopolies of raw materials essential to the normal peace-time consumption of the United States; thirdly, to loans for non-productive purposes. These vetoes have developed on specific applications, and, although the correspondence between the bankers and the State Department is carried on in confidence, were brought to light in the interests of public policy, advocated in the main by the Treasury and the Commerce Department, which are apparently taken into consultation before loan applications are "passed" upon. It should be emphasized, however, that policy is not considered iron-bound by precedent.

Objections have also been raised to a loan to Germany to finance trade with Russia and to the selling of a Russian 9 per cent railway loan in the United States. The policy here has hardly been consistent. The government has more than once intimated that it does not favor loans to Russia, but with American trade with Russia booming, has seemingly acquiesced in the granting of long-term credits for facilitating American exports to Russia. A case in point was the agreement late in 1927 between the Soviet Government and an American financial group headed by Percival Farquhar providing a credit of $40,000,000 for six years. It was understood that most of the capital thus obtained would be invested in the United States in new metallurgical equipment. The agreement was hailed at the time as "a breach in the American credit barrier."[4] The banning of a loan to Germany to finance German trade with Russia could not check what is a general practice,[5] for the simple reason that the American Government could not control both ends of the conduit pipe.

LOANS TO NATIONS WHICH HAVE NOT FUNDED THEIR WAR DEBTS TO THE UNITED STATES

THE ban on loans to nations whose debts have not been funded had its origin in the attitude of the Treasury. That may, indeed, have been the basis of the 1922 announcement. That it was not then

[4] *New York Times*, November 29, 1927.

[5] For examples, see Section IV, Chapter 1, "Reparations," p. 389 ff.

made clear was due to reasons both of public and domestic policy. As Elihu Root has pointed out, "Nations are even more sensitive to insult than individuals," and there could hardly have been a more disturbing affront to the debtor nations than publicly to announce the closing of the American money market to them. The domestic aspect of the policy arises out of its connection with the legislative function of Congress. Credit extended to foreign borrowers in general spells the exportation, not of funds, but of goods; an embargo on foreign loans might be considered tantamount to an embargo on exports, which is not an executive but a legislative function. After waiting nearly seven years for most of the debtors to acknowledge their obligations, Secretary Mellon felt that he would have public opinion on his side without legislative action in applying the pressure of non-access to the American money market to the negligent debtors. The exercise of the pressure was well timed. London was closed as a market for foreign capital issues on account of Britain's impending return to the gold standard; other financial markets were slowly recovering from war effects. The ban is explained in the 1925 report of the Treasury.[6]

> Early in 1925, after much consideration, it was decided that it was contrary to the best interests of the United States to permit foreign governments which refused to adjust or make a reasonable effort to adjust their debts to the United States to finance any portion of their requirements in this country. States, municipalities, and private enterprises within the country concerned were included in the prohibition. Bankers consulting the State Department were notified that the government objected to such financing.

It is known that at least one debtor government was refused a loan by New York bankers when the administration drew attention to its failure even to acknowledge communications on its obligation.[7]

The use of the new State Department policy as an instrument of national policy to enforce respect for war debt claims had particular application to France. About this time she was contemplating a stabilization loan, but negotiations were held up because she had failed to conclude her war debt settlement with the United

[6] P. 54.

[7] *Wall Street Journal*, June 23, 1925.

States. France chose to forgo the loan rather than accept the prerequisite condition of adjusting the war debt. At the end of 1927 she was still unwilling to ratify the Bérenger-Mellon agreement, but was making regular payments to this country in accordance with schedule. This might explain the raising in 1927 of the ban on the flotation in the United States of French industrial issues. Before this, however, the State Department had approved the flotation on the American market of lower interest bearing securities to retire $75,000,000 of French bonds floated in the United States. Seeing that the State Department action came at the time of a Franco-American controversy over the French tariff, it was natural that it should be regarded as an attempt to facilitate the tariff negotiations. But France chose to ignore the offer, and to put the transaction through in another way; the retirement of the outstanding bonds was accomplished through the sale of $75,000,000 new French 5's to the Swedish Match Company. The American subsidiary of this organization at the same time offered $50,000,000 of its debentures on the American market. Barred officially from the American market, France has floated large loans in such foreign markets as Holland and Switzerland, and these have been subscribed in many cases by American investors. Dr. Max Winkler estimates that in the five months ended February, 1927, France borrowed some $105,000,000, of which about $27,500,000, was supplied by Americans. Much the same result could be adduced from any other study of the holdings of French post-war loans.

LOANS TO ASSIST MONOPOLIES OF RAW MATERIALS ESSENTIAL TO NORMAL PEACE-TIME CONSUMPTION IN THE UNITED STATES

Mr. Hoover regards American loans to so-called monopolies, as well as non-productive loans, as injurious to the larger interests of the United States. The administration has adopted this standpoint. In the latter part of 1925 it became known that the State Department had objected to the underwriting by Lee, Higginson and Co., of a $75,000,000 loan to the German Potash syndicate. Subsequently two issues, one of £8,000,000 and the other of £4,000,000, were floated in London by a syndicate in which the

London branch of Lee, Higginson and Co. participated. Then a proposed loan to the Brazilian Coffee Institute came under official veto. Mr. Hoover's objections were voiced as follow:[8]

> The administration does not believe the New York banking houses will wish to provide loans which might be diverted to support the coffee speculation which has been in progress for the past year at the hands of the coffee combination in São Paulo, Brazil. Such support would simply bolster up the extravagant prices to the consumer.

But the coffee interests got through the meshes of official prohibition by securing two loans about equal in total amount to the banned loan through Lazard Brothers and Co., Ltd., on the London market. In accordance with a usual practice, a portion of the bonds were purchased and sold by an investment house in the United States. "When we denied certain foreign monopolies access to our own monopoly of credit, we in effect pitted one monopoly against another," comments John Foster Dulles,[9] but the effect of these two vetoes would corroborate what he further points out, that our "monopoly of credit" is being dissipated by the restoration of other investment markets.

In these days of industrial control of raw materials peculiar to certain countries and of a growing degree of international economic understanding, there would seem to be difficulties of definition and application, besides one of consistency, in the official attitude toward this class of foreign loans.

LOANS FOR NON-PRODUCTIVE PURPOSES

By non-economic or non-productive loans it is inferred that the department has principally in mind loans for armament, since, according to Secretary Kellogg,[10] the department has disapproved certain loans of this character. The policy is specially applicable to certain Central American republics toward which the United States has assumed a special moral obligation. In these cases, to quote an official of the State Department, the department may

[8] *Cf.* Speech before the Third Pan American Commercial Conference, May 2, 1927.

[9] *Foreign Affairs* (N. Y.), "Our Foreign Loan Policy," October, 1926, p. 33.

[10] Address before the Council on Foreign Relations, December 14, 1925.

also "feel called upon to consider whether the arrangements proposed are fair to the government concerned."[11] Another official says, "We scrutinize their loans with particular care to be sure they are not too large to be easily handled and that they are for purposes which will assist the borrowers to build up their own economic structure to a point where they will be entirely self-supporting."[12] The governments concerned have sometimes been requested to give their assistance in settling any disagreement concerning a loan contract by referring the dispute to a member of the United States judiciary, and also to assist in the selection of financial experts. Furthermore, according to Secretary Hughes,[13]

> In this situation, our government endeavors by friendly advice to throw its influence against unfairness and imposition, and it has at times, with the consent of the parties, indeed at their instance, agreed to a measure of supervision in the maintenance of security for loans which otherwise would have been denied or would have been made at oppressive rates.

Bolivia, China, Colombia, Cuba, Ecuador, Guatemala, Honduras, Hungary, Liberia, Mexico, Panama, Paraguay, and Persia are apparently in the mind of the State Department in this general connection. To some of these countries unofficial American financial experts have sometimes rendered assistance. Edwin W. Kemmerer, for instance, has held appointments to recommend currency reforms in no fewer than seven Latin American countries. Other countries have engaged Americans on semipermanent appointments in connection with loan agreements. In 1927 an American was engaged as financial adviser to make a survey in Nicaragua, and an American adviser was attached to the Ministry of Finance in Poland in connection with the extension of an important loan.

China is in a separate category in respect of the diplomatic side of its financial relations with the United States. In pre-war days

[11] Young, Dr. Arthur N., in an address before Radcliffe College, Jan. 15, 1925.

[12] Castle, William R., Jr., in an address before the Republican Club of Massachusetts, at Boston, March 7, 1928.

[13] Address before the American Bar Association, August 30, 1923.

financial relations with China held a special significance, and the State Department found that diplomatic intercourse with Peking was prejudiced on account of the non-existence of an American banking group in the international Consortium operating in China. Certain American banks were approached, and admission diplomatically gained for them to the Consortium, but later the Wilson administration withdrew its support, and the American group fell out. President Wilson maintained this attitude toward all further American attempts to participate in any ambitious measure in the economic development of China. After the war, policy was suddenly reversed, and, again at the instigation of the State Department, an American banking group came together, and after protracted diplomatic correspondence was joined by banking groups from the principal lending nations. Together these groups made up the existing Chinese Consortium. In its letter to the American banking group on July 19, 1918, the State Department said, "This war has brought the countries of Great Britain, France, Japan, the United States, and some others into a state of harmony and helpfulness, and has supplanted an intense spirit of competition by a spirit of mutuality and coöperation in matters relating to their interests abroad." To all those invited to become members of the group it was made clear that the enterprise was of the character of a public service, entered upon at the request of the government to the end of assisting to maintain the government's traditional policy of the "Open Door" and of replacing international competition in China with international coöperation. In connection with past loans to China for quasi-military or administrative purposes, China has yielded valuable national concessions as security, and the new Consortium laid down the principle that only loans for constructive purposes would be considered. China has not yet invited its financial assistance.

The recent charge that American money was finding its way to Germany for unproductive purposes has engaged the attention of the State Department, judged from Secretary Kellogg's speech before the Council on Foreign Relations already cited. The Secretary of State said, "The department has . . . called the attention of the bankers to the fact that they should consider very care-

fully the question whether . . . loans were for productive purposes which would aid in procuring funds for transfer." As will be seen from the chapter on reparations, this concern made itself felt in responsible quarters, and, with the coöperation of the German Government, stricter measures of German control over borrowing activities had been achieved by the end of 1927.

OPINION ON THE POLICY

THIS short history of supervision would make it doubtful whether it is possible in peace time absolutely to regulate the movement of investment funds. Somebody has said that money follows interest as the tide the moon, but it is guided by hands that are international in scope and competitively inspired. As soon as hostilities have ceased international finance breaks down barriers still maintained by war psychology. In 1817 Baring and others were eager to lend money to Britain's ex-enemy, France. In answer to questions in Parliament, Lord Liverpool said that the government had informed the bankers that any such transaction would be concluded strictly at the parties' own risk. This has been the situation after every conflict. It was the situation after the late war. France owed us war debts; but the French equivocal attitude did not deter private American citizens from lending money to the French Government. It has been shown that international finance can just as easily break down the proscriptions of peace. American capital has been borrowed by parties in default to European bondholders. It has gone into unproductive channels. It has flowed through the bars raised against it by the State Department. The closing of the American money market to a prospective borrower merely diverts him to another financial center, where the same instrumentalities denied him in the United States may turn up to meet his needs in another national costume. The profit of course goes to the underwriting country.

The problem in the United States is aggravated because under our banking system the degree of coöperation existing in Great Britain seems hardly attainable among American investment bankers. There has thus developed a certain competition capable of introducing to the public unsound investments.

To entrust government agencies with such centralized power in the international field as formal supervision would confer would be to add new embarrassments to their international functions. Politics or diplomacy must inevitably override economics in the considerations of the State Department. Some legislators would emphasize this tendency. A congressman some time ago opposed a loan to Rumania "because of its disregard for the treaty rights of religious minorities." The State Department was assailed from China (as well as by Americans who scented political implications) while it was considering the application of bankers anxious to underwrite an issue of bonds for the South Manchuria Railway Company. Because of these problems, a certain opinion, recognizing the growing importance of money lending abroad in America's international activities, admitting government responsibility yet hesitant to add to it, favors the continuance of what George W. Edwards calls "modified *laissez faire*."

Alternatives to the present *régime* offer a labyrinth of uncertainty. Perturbed lest supervision should become the equivalent of protection, many agree with Senator Borah that government intervention should be terminated, some because of their confidence in the emergence of banking self-control, and others on grounds of *laissez faire* pure and undefiled and traditional American principles. Others wish to see oversight reposed in the Federal Reserve Board, or the Treasury, or a government commission, at the same time advocating more publicity in order that the public should be kept informed of the problems and possible consequences involved in these transactions. A section of public opinion demands international supervision of international money-lending on the ground that competition for the financing of backward countries leads inevitably to international conflict. These advocates point to the success of the League of Nations as a banking adviser. They argue that international finance should be as rigidly regulated as domestic banking. If they cannot obtain agreement to the suggestion that American finance should submit to international regulation, then they would entrust the determination of defaults to international agencies, with power to arbitrate controversies and make decisions binding. There is at least one case

on record of a private international loan in which provision is made for the reference of any dispute to the League of Nations.

On the general question of the internationalization of the investment function, James Speyer, an international banker, has this to say:[14]

> Take the instance that was cited just now about the German steel makers wanting money here. I can very well imagine that a Frenchman on that committee would be dead opposed. And I go further. If, after our Civil War, we had had such an international committee in Europe to pass on what loans should be made to the United States of America to help them build up one of the greatest industrial machines that ever was, I do not think they would have let us have much money.

Something has been achieved in the way of international investment understanding. Apart from undertakings under the auspices of the League, post-war examples are the Chinese Consortium and the growing coördination of the world's central banks, while investment bankers in the United States have also shown a coöperative spirit in at least one instance in interceding with a would-be borrower in behalf of foreign holders of existing bonded indebtedness whose service had been neglected. It is the investor's hope that such coöperation among world investment bankers will eventually alleviate the risks of default through the refusal of new loans until debtors have made a satisfactory composition in respect of old loans, provided the old loans have been honorably contracted.

Senator Carter Glass is the foremost critic in Congress of the State Department policy in its domestic aspects. He describes it as "a dangerous centralization of power" and attacks it as unconstitutional. He says the department has no more right to approve or disapprove foreign loans than it has to embargo the export of commodities.[15] The answer of the State Department is that there is nothing unconstitutional in answering a banking inquiry. To outward seeming this is all that the department's informal ruling amounts to; even when applied in vetoes it involves merely a loose supervision. But scrutiny by the State Department confers in the nature of things a regulatory power whose impor-

[14] In a speech before the Foreign Policy Association, March 24, 1928.

[15] *Proceedings of the Academy of Political Science* (N. Y.), January, 1928.

tance corresponds with the billion a year expansion of American loans. President Coolidge justifies the government's scrutiny by contending that foreign loans come within the proper conduct of foreign relations, and that supervision is therefore a function of the President under the Constitution. He "indicated that he had considered from time to time the abandonment of the policy, but had come to the conclusion that unless some such plan was followed, Congress might enact a drastic regulatory law, which in the end might interfere with the making of any such loans."[16]

In commenting editorially on what it called this "truly extraordinary" statement, the *Commercial and Financial Chronicle* of October 22, 1927, said:

> It may well be questioned whether there is a word or phrase in the Constitution of the United States, or an allusion or implication in any decision of the Federal courts, which would sustain the contention that the supervision of foreign loans made by private citizens is an element of the foreign relations power of the Federal Government. In so far as such loans constitute foreign or domestic commerce, they are placed by the Constitution under the exclusive jurisdiction of Congress. While in so far as they are private business transactions, which of course they are, when the government itself is not the lender, they are not envisaged by the Constitution at all. To maintain, as Mr. Coolidge is represented as maintaining, that executive supervision is necessary in order to prevent Congress from legislating upon the subject, is not only to set the Executive in opposition to Congress at a point at which the constitutional authority of Congress is clear, but suggests a further usurpation of executive authority whose sole defense appears to be that Congress, if it chose to act within its undoubted right, would probably act unwisely. It is indeed a novel constitutional doctrine that the Executive may properly act in a financial matter of importance, notwithstanding the lack of constitutional warrant, in order to discourage Congress from acting in the same matter in a way that the Executive might not like.

A growing body of opinion would look askance at any other than an informal, flexible supervision, and would prefer it to a control by which every foreign loan depended on the chances of a debate

[16] *New York Times*, October 15, 1927.

in Congress. That might mean either the loss of valuable business to the United States or the diversion of capital exportation into channels neither productive nor desirable in the best interests of international relations. There is, however, a general sentiment strongly opposed to the financial-political adventuring such as disfigured much of the European lending in the nineteenth century.

CHAPTER FOUR

INTERNATIONAL IMPLICATIONS OF GOLD DISTRIBUTION

THE use of gold as a general measure of values pins the exchange price of all goods and services to a standard which is highly unstable. It follows that such a monetary system exerts a profound but largely unperceived effect upon general social welfare.

Where the quantity of all forms of credit instruments, including currency, is strictly related to the quantity of gold available, there is a consequent variability in the supply and consumption of goods. If everybody were given $100, everybody would be able to buy more goods, and the added demand would stimulate production to meet it. The opposite effect would be produced if $100 were extracted from everybody's pocket. The consequence of these two processes on prices is not so simply explained, but it is generally held that prices are affected by the proportion between circulating money and goods. Where gold movements determine the quantity of money, an influx of the metal, by increasing money supplies and therefore the demand for goods, eventually raises the general level of prices; in contrast, a decrease in monetary gold has the reverse effect.

A homely illustration of the result of this process is found in Boswell's *Life of Johnson.* When the lexicographer was told that in the island of Skye eggs were twenty for a penny, he replied: "Sir, I do not gather from this that eggs are plenty in your miserable island, but that pence are few." Subject to the proviso that it is dangerous so to particularize on the relation between available money and prices, the learned doctor's dictum applies what most economists regard as a general truth, involving those uncertainties in living conditions whose injurious social consequences have been observed in the post-war period. Professors E. W. Kemmerer and Irving Fisher are among those who advocate the regulation of one or other of the factors that make for price

level perturbations. In his 1928 presidential address to the Stable Money Association, Professor Kemmerer said,

> There is probably no defect in the world's economic organization today more serious than the fact that we use as our unit of value, not a thing with a fixed value, but a fixed weight of gold with a widely varying value. In a little less than a half century, here in the United States, we have seen our yardstick of value, namely, the gold dollar, exhibit the following gyrations: from 1877 to 1896 it rose 25 per cent; from 1896 to 1920 it fell 70 per cent; from 1920 to September, 1927 it rose 56 per cent.

He and other economists aim at making the dollar as constant in its purchasing power as our weights and measures are in their equivalences. It would then be unnecessary to ask, in the words of Henry Ford, "A foot is twelve inches but when is a dollar a dollar?" The efforts to create stability of purchasing power find their justification in the verdict of the Midland Bank (London) in its monthly review of June-July, 1927, that "history has shown that apart perhaps from wars and religious intolerance, no single factor has been more productive of misery and misfortune than the high degree of variability in the general price level." Some reformers are even exercised over plans for the entire demonetization of gold.

Bad as is this economic instability for the nation concerned, it may have an injurious effect on international affairs. For the nations having close trade relations with each other, it means that the price level of one country may be subject to fluctuations traceable to events occurring in other and often remote countries, but particularly in the economically predominant country. Yet until post-war years it did not unduly affect international political relationships, for two reasons: (a) changes in the relative price levels of different countries were never abrupt and violent; (b) these changes were always more or less automatic.

The moneys of two countries exchange at par when the mutual indebtedness of goods and services balance; when one nation receives more goods and services from another than it gives in return, then the exchange goes against it, and is rectified by an

outflow of gold settling obligations which cannot be otherwise balanced. It was the general experience before the war that as gold flowed out, the consequential advance of money rates curtailed supplies of credit, industry was impeded, and prices exhibited a falling tendency—a process called deflation. But the effect was ultimately to attract gold, which always flowed to countries with high interest rates, and this set up precisely the opposite consequences, bringing price levels back to equilibrium. Hence the slight effect on political relations.

This condition of things was popularly described either as automatic or as a natural combination of cause and effect. No nation exerted a purposeful influence over its price level (although it could have done so easily), much less over the prices of other countries. But, being the world's principal gold market, London could, and at intervals did, exercise some control over gold movements through a change in the discount rate of the Bank of England, which thus attracted or repelled gold as conditions required. It could also influence credit by drawing funds off, and putting them on, the market through certain open-market operations in the buying and selling of securities, thus releasing or contracting available funds to the public. Most of the newly mined metal was sent to the London bullion market to be disposed of, and when it entered the vaults of the Bank of England it instantly gave rise to fresh supplies of credit; conversely, any shortage inevitably led to credit contraction. It follows that London was the point where a shortage or plethora of gold produced its initial effects, and this made it the world leader in credit expansion or contraction, with its ultimate consequence in a rising or falling price level. Though gold was the standard, though the yardsticks of its value varied with every country, the pound sterling was elevated into the position of arbiter of world currencies and prices by the converging of economic activities on London. Its position never caused continued embarrassment to the domestic economy of other countries, partly because little suspicion existed that it was used for political purposes, but principally because the mechanics of the gold standard under the operation of free gold markets distributed

the metal in the proportions required by differently constituted countries.

In consequence of the war most countries abandoned the gold standard as too restrictive of their economic activities. The outgo of gold in payment of supplies from neutrals was not looked upon as the signal to readjust their economic mechanism by nations intent on production for war-making. Currency and credit were issued entirely without regard for the restraints formerly imposed by the availability of gold. The world indulged in rampant inflation, including even the United States, which prohibited gold exports except under license from September 7, 1917, to June 30, 1919, but which otherwise was the only nation which did not depart from the basic principles of a full gold standard.

It was long after the war that the nations began to return to a gold basis, amid conditions which have given the problem of gold distribution a significance that it never before possessed. These conditions are: first, some of the most important countries have reëstablished a gold standard after a period of irredeemable paper money. Their transition from an inflated price level to a gold standard price level has been materially affected by the availability of gold. To intensify their difficulties, these same countries are under long-term obligation to make war debt payments measured in terms of gold; on these payments the distribution of gold and the relative price levels of debtor and creditor nations have an important bearing. Secondly, trade and credit developments during and after the war have drained half the monetary gold stock of the world to the United States, which is at the same time the principal creditor of all the nations most concerned with the way in which gold is distributed. Thirdly, the banking system of the United States has been so organized as to confer a more conscious control than hitherto over the relation between gold and credit; hence, but strictly within limits, over the commodity price level of the United States and by indirection over that of other countries. Such a control is exercised by the Federal Reserve system, which was established in 1913 partly to make the country's currency mechanism less sensitive to gold imports and exports;

"deliberately it had been made insensitive rather than sensitive," says Dr. Taussig.[1]

RETURNING TO THE GOLD STANDARD

A NATION is not injured by the fact that its currency is irredeemable in gold and its price level inflated. On adjustment a new par must be introduced to bring the currencies of the trading nations into a value equilibrium; and the nation's foreign trade in goods and services can be made to balance without creating any need for gold settlements. But when the nation's money is not only depreciated, but depreciating, a new influence comes into force. This condition tends temporarily to stimulate exports from the country with the irredeemable money into the stable money countries. If the exporting country happens to be the debtor of the importing countries, the bearing of this factor on international relations is evident.

Quite apart from the difficulty of resuming a gold monetary system, those countries with both a depreciated currency and a heavy debt to the United States had sufficient reason to consider themselves seriously injured in their credit relations with the United States by the behavior of prices subsequent to the debt contracts. They had borrowed billions of gold purchasing power from the United States and contracted to repay these billions in gold dollars. When they borrowed, gold dollars were cheap because the price level in this country was high; when they began repayment, gold dollars had increased at least 20 per cent in value, and the last important settlement was signed when this increase had reached 33 per cent. In short, the behavior of the price level had increased their burden of indebtedness by at least one-fifth, irrespective of any policy of their own regarding domestic stabilization. This fact is the more apparent because these European countries borrowed goods, not gold. When they began negotiations for repayment they found themselves obliged to pay, not goods of a value equal to the original loan, but definite sums of gold of indefinite purchasing power. The increase of their in-

[1] Taussig, *International Trade*, p. 330.

debtedness to America by approximately two billion dollars of purchasing power resulted from the fact that the war debt settlements contained no safeguarding clause relating the indebtedness of the borrowers to the price level.[2] Here was cause for the concern of those debtor nations regarding the future of the price level in this country; any further fall of prices would add to their load of debt.

This concern was intensified by the suspicion that this country, through control of gold movements and therefore of international exchange levels, was keeping world commodity prices, but particularly American prices, depressed. It was alleged in some quarters that our prices remained below the level that might be expected to result from a free play of economic forces. To this allegation the answer was made that the cause might as reasonably be traced to conditions in Europe. In any case, up till the middle of 1927 our price level was declining somewhat in the face of conditions that might naturally have caused it to rise. Between January, 1925, and June, 1927, wholesale prices in the United States declined 10 per cent; in Switzerland, 14 per cent; in Sweden, 14 per cent; and in England, 17 per cent. Falling domestic prices tend to be depressing to business activity and the consequences are serious to countries recovering from economic dislocation.

How much the international economic problems of these countries would be aggravated by their return to the gold standard depended upon the conditions under which that revolution of their monetary system was carried out. When, as in the case of Germany, the old paper money was practically repudiated, no international problem was created save that of obtaining from abroad a sufficient supply of gold to launch the new monetary system; this was achieved by borrowing. Nor has any international complication arisen over the return to the gold standard which accepted and perpetuated the existing depreciation of the paper unit, as in the case of Italy and France. Italy has officially accepted the depreciated value of the lira and stabilized it permanently at

[2] Concessions were made in the debt settlements that to a certain extent offset this inflation of debt repayment. See Section IV, Chapter 2, "Debts."

its present value; France, through 1927, while refraining officially from accepting the current value of the franc as permanent, tacitly stabilized it through the exchange market. These countries have added to their problems only the additional concern of commanding enough of the world's gold or foreign exchange to maintain their monetary systems.

But England's problem was different. At a time when the value of her pound sterling was actually 10 per cent below pre-war par, she undertook to reaffirm the pre-war par value in terms of gold for her paper money and for sterling bills of exchange. This was proudly called a return to normality, although, as Reginald McKenna, chairman of the Midland Bank, has often pointed out, it is never explained "why the conditions of 1913 should be regarded as normal any more than those of 1927 or 1928 or any other date." The step involved an addition to the exchange costs of all foreign buyers of British goods, handicapping English export trade and giving an artificial stimulus to the trade of England's competitors. The step is still the subject of heart-searchings in industrial circles, which are now engaged in counting its cost. Sir Alfred Mond, one of Britain's leading industrialists, in his *Industry and Politics*, says, "It has been calculated—I think, correctly —by various authorities, that one result of the return to the gold export standard, a result of the rise in the £ in relation to the dollar, is to add between 1s. 9d. and 2s. to the price of every ton of coal we export from South Wales." The decline of export trade meant an increase of Britain's staggering burden of unemployed; costs fell to reëstablish England's competing power, bringing about a decline of wages tantamount to a reduction, according to J. M. Keynes, of about 10 per cent in the standard of living. After setting out upon such a venture it was natural that England should view with an anxious eye the trend of gold movements upon which she relied to carry it through successfully.

At the same time, England's debtors abroad were compelled by England's return to gold to pay her in terms of gold rather than in depreciated pounds, and this advantage to the British creditor offset in some degree the disadvantage to British industry.

THE GOLD FLOW TO THE UNITED STATES

SOME authorities, notably those of the Rand, hold that the world must accustom itself to a progressive decline in the output of gold; others are optimistic. Joseph Kitchin, in his evidence before the Royal Commission on Indian Currency and Finance, estimates that the world's monetary stock of gold needs to increase at the rate of 2.4 per cent per annum to keep abreast of economic development. The facts are that output has continuously decreased since the peak year of 1915, confirming the opinion of the joint committee set up soon after by the U. S. Department of the Interior that production has "passed its zenith," and seems "to be on the decline." Moreover, gold has decreased in purchasing power by 60 per cent since 1901; not only is gold more expensive to produce but also more gold is required by the central banks to do the work it formerly did. The shortage has constrained the world to dispense with hand-to-hand gold currency and to conserve and consolidate its gold stock as the basis of credit. "Unless we are prepared to face a prolonged fall in commodity prices," warns the Comptroller of the British Mint, in his 1926 report, "it is imperative to economize on gold, both as regards its use as a commodity and as money." The British official was emphasizing the warning which had previously been issued by the Indian Currency Commission. But present economies, coupled with the decline in production, do not offset the shortage in the requirements of the gold standard world, which has thus to look to the United States for replenishment.

A comparative table of the pre-war and post-war holdings of the world is furnished below:

GOLD HELD BY CENTRAL BANKS AND GOVERNMENTS, 1913-1927[3]

	1913	*1927*
United States	1,290,420,000	3,977,181,000
England	170,245,000	741,698,000
France	678,856,000	710,339,000
Germany	278,687,000	444,158,000
Italy	288,103,000	239,180,000
Belgium	59,131,000	99,878,000
Netherlands	60,898,000	160,796,000
Russia	786,800,000	97,043,000
Spain	92,490,000	502,484,000
Switzerland	32,801,000	99,785,000
Canada	115,894,000	151,978,000
Argentine	224,989,000	460,771,000
Brazil	53,202,000	100,735,000
Australia	21,899,000	105,121,000
India	72,780,000	119,097,000
Japan	64,963,000	541,739,000
Other banks and countries	479,334,000	651,614,000
Total	4,771,492,000	9,203,597,000

The fourteenth annual report of the Federal Reserve Board shows the manner in which America's stock has been increased. Between June 30, 1914, and December 31, 1927, it increased from $1,891,000,000 to $4,376,000,000, an increase of $2,485,000,000, of which $2,071,000,000 represented reported net imports less amounts earmarked for foreign account, and $414,000,000 additions to gold stock from other sources, chiefly excess of domestic production over consumption by industry and the arts. The history of this large accession may be divided into five periods. (1) Between June, 1914, and April, 1917, when the United States joined the Allies in the war, there was a net import movement of gold amounting to $1,080,000,000, caused by payment for war demands for goods and materials. (2) Between April, 1917, and June, 1919, there were few gold movements in and out of the country, because Europe paid for American purchases with American

[3] Table adapted from comprehensive figures published in the *Federal Reserve Bulletin*, April, 1928, p. 261. The figures do not include gold technically known as "in circulation," or holdings of any foreign assets other than earmarked gold. No satisfactory figures are obtainable under the former head. The aggregate of the American holdings at the end of 1927 is stated at $4,376,000,000.

credits, and an embargo on gold exportation was in effect. (3) Between June, 1919, and September, 1920, gold began to flow out in liquidation of foreign dollar balances held in the United States. The net export was $380,000,000. (4) Between September, 1920, and December, 1924, gold flowed continuously into the United States, the net import being $1,660,000,000. This inflow was due largely to the fact that Europe needed supplies of food and raw materials for purposes of reconstruction and was obliged to export gold to balance her accounts. (5) Since December, 1924, gold movements have been on a much smaller scale, the United States having lost about $125,000,000. According to the Federal Reserve Board month-to-month figures, the peak of America's holdings occurred in May, 1927, when the United States held $4,609,000,000. Exports since then "occurred very largely in connection with programs of monetary reform or as a consequence of central bank credit policies."[4] Thus at the end of 1927 the United States still held nearly half of the world's total stock of monetary gold, as compared with a quarter before the war; but when our economic progress is borne in mind, and the fact that our gold is supporting a credit structure which, according to League of Nations figures, is five-eighths of that of the entire world, our so-called "gold hoarding" does not seem so heinous as some foreign critics have asserted.

CONTROLLING THE RELATION BETWEEN GOLD AND CREDIT

In 1917, after the United States had entered the war, the full value of the Federal Reserve system in the centralization of the country's bank reserves came to be appreciated. Credit was expanded to meet war demands, but it rested no longer on the movement of gold, which was stationary up till the middle of 1919, but immediately on the credit flowing from the credit reservoir of the Federal Reserve banks. As was to be expected from orthodox economic theory, the result was inflation of prices. In April, 1919, the system's ratio of reserve to liabilities was 13 per cent to 14 per cent above requirements, but by November an outburst of speculation in every

[4] Fourteenth Annual Report of the Federal Reserve Board, p. 14.

market, probably partly influenced by the large gold inflow, had nearly exhausted the New York Reserve Bank's surplus. Discount rates had eventually to be raised, and the consequent deflation through the retirement of the Federal Reserve credit issued for war purposes brought prices down precipitately.

In 1921, after this warning of the demoralizing effects of both inflation and deflation, the Federal Reserve authorities began to exercise themselves over the problem of the scientific control of bank credit. Emergency demands were no longer in operation, and the factors were favorable for the adjustment of credit supplies according to the country's economic needs, the war having brought a third of the country's banks, with two-thirds of the total bank resources, within the system. Moreover, gold was at this time pouring into the United States, and this was added reason for laying the foundation of a settled policy of regulating credit instead of allowing gold movements to regulate it, of using gold reserves against a quantity of money, not as the basis of it. Such a momentous change from pre-war practice was destined to try to make gold the servant instead of the tyrant of industry. One by one the brakes for the purpose of rationing credit scientifically were brought into operation. The first was buying and selling government securities, a form of credit control already in employment in London. It would seem as if the Federal Reserve authorities must have known of the British experience. Professor Commons, however, dates the "insight" of the Reserve Board of its power through these operations as somewhere between May, 1922, and April, 1923.[5] In the ordinary course of business the Reserve banks had acquired government securities as earning assets. Such purchases obviously put cash in the hands of the selling member banks, and this was used to pay their debts to the Reserve banks and to replenish their reserves, the augmentation of which is generally felt in an augmentation of credit supplies. But it took a particularly large transaction during the period mentioned by Professor Commons for the system to realize the power over credit supplies residing in such operations. So important was the transaction referred to that it resulted in the reduction of commercial money

[5] *The Annalist*, April 1, 1927.

rates and the inflation of prices. If open market purchases of government securities had this effect, then the contrary step of open market sales would have the reverse effect; here was the introduction of the first lever of conscious credit control. It is now generally regarded as preparing the market for firmer money rates. There are other levers or brakes; first, changing the rediscount rate, the rate at which member banks obtain credit; second, the circulation or withdrawal of gold certificates; and, third, the mobilization of member bank coöperation not only in furtherance of policy but also in the maintenance of a so-called tradition to keep down their indebtedness to the Federal Reserve system.

When the bill creating the Federal Reserve system was under discussion in the Senate in 1913, the two policies laid down for its guidance were the accommodation of business and commerce and the stabilization of the price level, but this latter injunction was eliminated prior to enactment. The Strong bill now before the House would reinstate it thus: "All of the powers of the Federal Reserve system shall be used for promoting stability in the price level." Some of this bill's supporters, probably thinking more often of particular commodities than of the general level, maintain that price stability can be insured by the confident handling of the credit brakes. The Federal Reserve authorities deny this contention, pointing out that they are not yet assured in their operations, but are watching drifts, studying tendencies, applying a corrective here and neutralizing a dangerous factor there, rather than working consistently toward a goal along a known chain of sequences. This is not to say that the Board has no goal ultimately in view. It is desirable that the Board shall manage its credit mechanism in such a way as to correlate the volume of credit to the volume of business, but whether its strivings toward this goal have an effect on prices is a question admitting of many opinions. In its official publications the Federal Reserve Board constantly minimizes the relationship. Its tenth annual report says, "Price fluctuations proceed from a great variety of causes, most of which lie outside the range of influence of the credit system. No credit system could undertake to perform the function of regulating credit by reference to prices without failing in the endeavor." This

has been continually stressed by all the high officials who have given evidence before the House Committee on Banking and Currency. But the fact remains that commodity prices have maintained a comparative impassivity ever since conscious control over credit became a settled policy of the Federal Reserve Board. Is this due to that policy? The 1926 hearings on the Strong bill contain remarks[6] of the Governor of the Federal Reserve Bank of New York in which he makes a move toward the affirmative.

Mr. Williamson. Do you think that the Federal Reserve Board could, as a matter of fact, stabilize price level to a greater extent than they have in the past by giving greater expansion to market operations and restriction or extension of credit facilities?

Governor Strong. I personally think that the administration of the Federal reserve system since the reaction of 1921 has been just as nearly directed as reasonably human wisdom could direct it toward that very object.

The governor later went into the question of gold "management" in the course of a memorandum prepared for the committee in answer to certain criticisms which had been levelled against the Federal Reserve system by the *Commercial and Financial Chronicle.* He said:[7]

In the old days there was a direct relation between the country's stock of gold, bank deposits and the price level because bank deposits were in the last analysis based upon the stock of gold and bore a constant relationship to the gold stock, and the volume of bank deposits and the general price level were similarly related. But in recent years the relationship between gold and bank deposits is no longer as close or direct as it was, because the Federal reserve system has given elasticity to the country's bank reserves. Reserve bank credit has become the equivalent of gold in its power to serve as the basis of bank credit. A bank can meet its legal requirement for reserves by borrowing from the reserve bank, just as fully as though it deposited gold in the reserve bank.

[6] Hearings before the Committee on Banking and Currency, H.R. 7895, Pt. I, p. 307.

[7] *Ibid.*, p. 470.

W. Randolph Burgess, Assistant Federal Reserve Agent of the Federal Reserve Bank of New York,[8] calls this "equivalent of gold" a "cushion." "Federal Reserve credit acted as a kind of cushion between gold movements and bank deposits. It broke the impact of gold exports or imports upon bank credit and made possible a continuous adjustment of credit to the needs of business."[9] He says that whereas the adjustment of Federal Reserve credit to changes in gold supply was largely "semi-automatic" until 1921, the adjustment of the subsequent period "was more conscious and more specific in aim," which he describes as "a logical use of the machinery of the Reserve system for enlarging the basis of credit in times of emergencies."[10] Irving Fisher[11] praises the system for this "management." "If it were not for the policy of the Federal Reserve system to virtually sterilize that gold, prevent its becoming the basis for a great pyramiding of credit, it would be a tremendous menace. If the Federal Reserve system had not done what it has done, I believe today the price level would be double what it is." He also says that the "comparative approximate stability of the dollar which we have had for the last four years, for which we have to thank in a large measure Governor Strong and his colleagues, is more responsible than any other one cause for our prosperity, which has been so unexampled, and which to many people has seemed to be unexplained."

If all the above-mentioned levers can be successfully marshalled, Federal Reserve policy, having displaced gold movements as the immediate determinant of credit, would undoubtedly have a distinct bearing, not on particular prices, but on their general level. It would be asking too much of our still youthful system to expect either the correlation of the levers or their employment at the psychological moment, yet the following table, showing a fairly stable course of prices after the definitive inauguration of the non-gold credit policy, would seem to be a testimonial to the Federal Reserve system as well as to the self-discipline of business.

[8] *The Reserve Banks and the Money Market.*
[9] *Ibid.*, p. 249. [10] *Ibid.*
[11] Address before the Robert Morris Associates at Louisville, June 7, 1927.

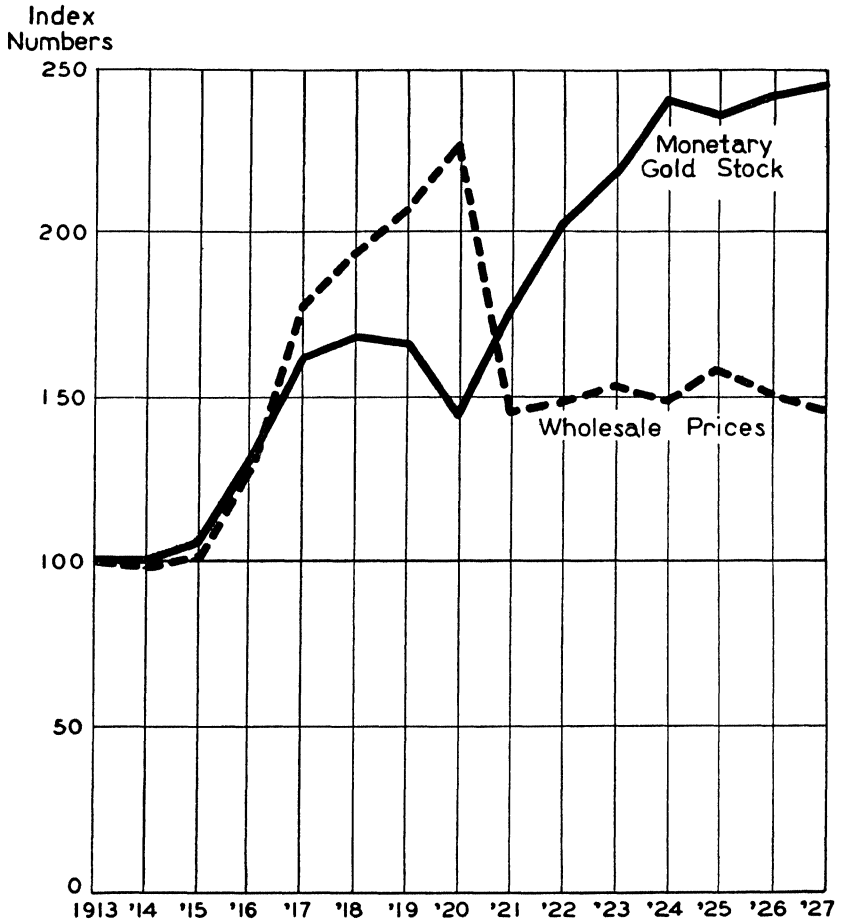
AVERAGE INDEX NUMBERS OF WHOLESALE PRICES—[12]
1918-1927

1918	194.3
1919	206.4
1920	226.2
1921	146.9
1922	148.8
1923	153.7
1924	149.7
1925	158.7
1926	151.0
1927	146.8

(1913 = 100)

In the first six months of 1927 the opinion was freely expressed in Europe that this gold policy was vitally injuring European economy. Thus the Swedish economist, Gustav Cassel, referring to the possibly disastrous effect of a continued fall of prices, stated in the circular of the Swedish bank Skandinaviska Kreditaktiebolaget in July, 1927, that the world-wide decline of prices was to be attributed to the eagerness of the United States to accumulate gold. Sir Josiah Stamp, in a speech reported in the London *Times* of March 18, 1927, stated that if the United States continued a gold absorbing and neutralizing policy, she would be conducing to a lower external price level in Europe and elsewhere. A strong statement from Philip Snowden, former British Chancellor of the Exchequer, condemned "American policy of cornering the world's gold supply." A direct attack upon our policy came from Berlin (J. Dreyfus & Co.). Taking the position that the gold problem must be viewed as a part of the problem of international debts, the writer asserted that "America as the creditor of the whole world will decide the future of gold"; that "the control of the . . . world price level has passed entirely to the Federal Reserve Board"; and that "the governors of the Board can put the world price level up or down as they please." The statement goes on to say, "a real deflation would render Europe's economic problem, if anything, still more difficult. It may well be asked whether the Federal Reserve Board is not partly re-

[12] Index Numbers of Wholesale Prices on Pre-War Base, Bureau of Labor Statistics, Department of Labor.



Relation of index of wholesale prices with monetary gold stock in the United States.

sponsible for the tardy improvement of the past few years." In France, Jean Barral had gained a following for his description of European nations as the "companions in servitude" to America.[18] Then a dispute with the United States over new French tariffs gave rise to repeated allusions to "Europe's answer to America."

[18] *Cf. Europe or America; Who Shall Be the Master?*

This is how Babson's Statistical Organization, in a report dated October 18, 1927, regarded it: "If the problem were limited to France alone it would not be so serious. We believe that France is voicing the protest felt by all industrial European nations." The *Independance Belge* was of the opinion that the French action would help in the formation of a European bloc to oppose American lack of coöperation. In the United States, the Harvard economists in their letter of July 23, 1927, attacked our policy of "depressing commodity prices in all countries by means of our activity in burying or sterilizing a large part of the gold supply of the world."

These reproaches did not take account of the charge by British industry that credit had been wilfully contracted by the ultra-conservative policy of the Bank of England. In relation to the United States, it was implied that the Federal Reserve authorities had not been cognizant of the need for a stable Europe. Their actions prior to 1927 belie the assumption. They had realized the danger to America's economic dominance of a Europe off the gold standard and had striven to bring her back to it. Nobody could know better than they that America's gold derived its value from its universal validity as money, and that, since the gold standard was an international convention, the United States, as the holder of half the world's gold, must assume some rôle of guardianship of that standard. Furthermore, the fluctuations in the exchange value of the dollar as expressed in foreign moneys were a great hindrance to American trade. An exporter is seriously hampered if he cannot make a fairly close calculation of the number of dollars he will get out of the foreign moneys in which he is selling his goods. Stability of exchange was necessary to save American trade from being conducted as a gamble; "it is more important to the United States to restore the currencies of the world to a stable basis and make them sacred than it is to collect our foreign debts," said Owen D. Young.[14] As far back as 1922 the Comptroller of the Currency had issued the warning in his annual report, "The cessation of gold imports would represent a long step toward the

[14] In a discussion at the 38th annual meeting of the American Economic Association, December, 1925.

restoration of that economic equilibrium which is absolutely necessary as a prerequisite to the establishment of sound monetary systems throughout the world." Great Britain was the first consideration. Continental Europe, Africa, and the Orient were all accustomed to trade through London, and no European country could maintain a gold standard without London which, in turn, could not be a gold market without American coöperation. And the United States could not expect fully to reap the reward in trade of her dominant economic position till the pound sterling had been worked up to the pre-war par with the dollar. This was done in 1925, with the aid of American credits, which were never used. Other countries gradually followed suit, with the United States sometimes standing by, ready to extend a helping hand, and sometimes actually extending loans, which energized production and restored normality in commercial relations. "I believe that the action of our Federal Reserve system in agreeing to work with the Bank of England in getting English currency back to a gold-backed basis constituted one of the wisest, most courageous, and most far-seeing actions ever taken by a bank of issue," was the verdict of Henry M. Robinson.[15]

INAUGURATING ACTIVE INTERNATIONAL BANKING COOPERATION

THUS a degree of coöperation had already sprung up by the middle of 1927. But, as we have seen, it did not end the troubles of Europe; it intensified them. Britain's return to the gold standard involved the raising of all restrictions on gold movements. Similar embargoes were removed by other countries newly returned to the gold standard. Though the Federal Reserve authorities, then accustomed to open market operations, had produced an easy money market, gold continued to return to the United States; it did not produce any advance in the price level; and the result was a gradual increase in money rates in Europe. Alarm was manifest on every hand in England. The Currency Commis-

[15] *Can Germany Keep up Her Payments?* Published by the National Foreign Trade Council.

sion of 1925 went so far as to declare that the policy of the gold standard hinged in a degree on the course of American prices. High officials of the Federal Reserve system realized that there must be a check to this denudation of Europe if Europe were to be maintained on the gold standard. Testifying before the Banking and Currency Committee of the House of Representatives on April 9, 1926, on the lack of significance to credit operations of the American gold reserve,[16] Governor Benjamin Strong said: "It won't mean very much to us until the readjustment or redistribution of the world's monetary stock has been one day completed. I hope that will be soon."[17]

Besides this difficulty, 1927 witnessed acute competition in Europe for the continent's reduced gold supply. Europe was pursuing a contrary policy to that recommended by the Genoa Conference of 1922 which advocated coöperation among the world's central banks with the view of economizing monetary gold. Countries were urged to content themselves with a gold-exchange standard and allow the major central banks to hold the metal. The idea was more or less on the lines of a clearing system; the money of gold-exchange standard countries would be convertible, not into gold, but into the money of some gold standard country, such as the United States or Britain, so preserving the link with gold. But this gold-exchange standard came to be regarded as a transitory expedient, as it was in pre-war days, and as the countries of Europe recovered their economic position there developed a demand for the actual gold wherever foreign exchange had been accumulated. Argentina began to divert gold direct from South Africa. The Bank of England was embarrassed by French drafts on the metal in London in the spring of 1927.

Thus the automatic suction of gold to the United States, the scramble for the vanishing remainder, the artificial depression of the international price level—these made up the problems which Europe invited America to solve in July, 1927, at a bankers' conference held in New York. "It may be surmised," says *British*

[16] The gold reserve ratio of the Federal Reserve Banks was 71.7 per cent at the end of 1927.

[17] H.R. 7895. Part I, p. 379.

Industries, the organ of the Federation of British Industries, of October 31, 1927,

that during the conference the European representatives stressed the fact that their attempts to operate the gold standard under the exceptional conditions of the post-war period had failed; experience having shown that each successive step taken, either by one European central bank acting alone, or by coöperative action by two or more central banks, tended, in the absence of any active American support of the international price level, to depress that price level to a corresponding degree, with the result that there appeared to be no end to the deflationary process; indeed, as it was, the possibility of a serious European monetary crisis could not be left out of account.

Active American support of Europe (and of the gold standard) came as a result of these bankers' conversations.[18] Benjamin M. Anderson, Jr.,[19] gives July 27 as the date that "seems to represent the turning point in Federal Reserve Bank policy." Easier credit conditions were provided in the United States for the facilitation of a gold movement to London. This was accomplished by the following acts: (1) The buying rates on acceptances were lowered at the New York Federal Reserve bank in late July and early August. (2) Beginning July 27, the Federal Reserve banks began large purchases of government securities, the figure rising from $385,000,000 on July 27 to a peak of $704,000,000 on November 16. (3) Beginning July 29, the Federal Reserve Board began the reduction of the rediscount rate from 4 per cent to 3½ per cent, a rate that became uniform throughout the system early in September.

These changes propelled and maintained a gold current Europe-ward, eased the pressure on London's reserves, and avoided a threatened rise in the London bank rate. Paradoxically (accord-

[18] Little has been revealed officially concerning a development whose effects were deep and world-wide. More information is available in the British and German press than in the United States; but the student may now piece together valuable data from the 1928 hearings before the committees on banking and currency of the Senate and the House of Representatives, particularly the evidence of Dr. Adolph C. Miller, a member of the Federal Reserve Board.

[19] *Chase Economic Bulletin*, Vol. VIII, No. 1.

ing to economic theory), the American commodity price level rose. The price increase between June and October was only 3 per cent, but it was the first real interruption in a steady decline in the world price level since 1925. Between August and the end of 1927 the United States exported $300,000,000, making a net loss in gold holdings in 1927 of $151,000,000. From certain appointments subsequently made in the central banking world, it may be inferred that steps were also taken, in particular by the Bank of England and the Federal Reserve Board, to harmonize to a certain extent the national monetary policies of the countries represented in the conversations with a common international policy more or less in line with the Genoa currency resolutions.

The reaction in England was instant and enthusiastic. Sir Josiah Stamp commented on the bankers' conference as "one of the most important in the history of industry." British industrial opinion on its results found expression in *British Industries*, which declared that America had "transformed the whole outlook." In the United States, the Federal Reserve Board explained the new policy as facilitating the financing of the fall purchases of grain, cotton, and other American farm products, and as attracting a larger volume of the financing of the exports to the banks of this country, and consequently in reducing the demand for credit for this purpose abroad, thus "exerting a favorable influence in the international financial situation."[20] At the end of the year, Secretary Mellon and the Federal Reserve Board stated the "larger plan" that the authorities had in mind. Said the Board:[21]

> In adopting a policy of international coöperation in support of the gold standard, the Federal Reserve system has acted in recognition of the responsibility resting upon this country, as the holder of nearly one-half of the world's stock of monetary gold, and of the importance of sound monetary conditions throughout the world to the prosperity of industry and trade in the United States.

It was a far cry from the days when the United States tried zealously to convert the world to the virtues of silver!

[20] *Federal Reserve Bulletin*, September, 1927, p. 631.
[21] Fourteenth Annual Report of the Federal Reserve Board.

The central banks in Europe have very definite ends ultimately in view. According to the *Financial News* (London),[22] Sir Otto Niemeyer, Director of the Bank of England, is "reported to have disclosed to the Bulgarian press a uniform credit policy for Europe." It was of the utmost importance, he said, that each bank should keep intact its statutory reserve in gold, in order to stabilize the national currency. A uniform pattern for European banks of issue would have its advantages in mutual accommodation. When the United States resumed gold payments in 1879, John Sherman, then Secretary of the Treasury, secured a gold credit of $15,000,000 in London by the sale of bonds, ready to be used if necessary to assure the stability of dollar exchange. The *New York Times*[23] recently reminded its readers that interbank arrangements such as now exist might have prevented the American panic of 1907.

An American central bank, in cordial relations with the European State institutions, might have arranged in advance for orderly shipment of gold by way of relief from the State banks at London and Paris. What actually happened was the frantic bid of a 4 per cent premium on foreign gold by Wall Street, advance of the Bank of England rate to 7 per cent, the adoption of measures by nearly all other European banks to prevent any gold withdrawals, and therefore a maximum of international disturbance with a belated and disastrously expensive machinery of relief in America. To a considerable extent, the world's great central banks acted in a crisis of those days with the same absence of effective and coördinated policies as was displayed in our country by the 6,000 national banks.

It is too early yet to look into the future of central bank cooperation. In Europe, competition for possession of gold has not ceased, for reliance on the title instead of the actual metal involves a degree of faith hardly compatible with present political relations. Investigation shows that a substantial part of our own gold supply is subject to withdrawal by the very countries which are berating us for not releasing more of it. Over a billion dollars,[24] or the equivalent of a quarter of our gold stock, is reputed by several

[22] December 6, 1927. [23] April 13, 1928.

[24] "Upward of $2,000,000,000," says Secretary Mellon, in his 1927 Report.

authorities to be held in New York in foreign balances, and, inasmuch as it has a direct claim on our gold reserves, it must not be forgotten in appraising how much of the metal the United States could lose without endangering credit or, alternatively, rearranging the basis of its support. For the ability of the Federal Reserve authorities to ignore gold movements in rationing credit in a gold standard world is obviously dependent upon the amplitude of the American gold supply.

THE IMPORTANCE OF NEW YORK

THE rise of the dollar in world importance is the fruit of all these activities. The United States through her gold resources has brought the main part of the world back to the gold standard. But she no longer allows gold to be the main determinant of her credit; credit has been regulated, and therefore gold exports do not necessarily cause a fall in the American commodity price level, nor do gold imports necessarily cause a rise. The purchasing value of the dollar is managed independently, and it follows that gold, being still the standard, must seek its value from the dollar. This is what has happened, and the result is that American monetary policy is instrumental in determining the value of the currency of every other gold standard country. McKenna puts it in this way:

> If the price level outside America should rise in consequence of an increase in the supply of gold, America would absorb the surplus gold; if, on the other hand, the external price level should fall in consequence of a shortage of gold, America would supply the deficiency. The movement of gold would continue until the price levels inside and outside America were brought once more into equilibrium. Although gold is still the nominal basis of most currencies, the real determinant of movements in the general world level of prices is thus the purchasing power of the dollar. The conclusion therefore is forced upon us that in a very real sense the world is on a dollar standard.[25]

To New York has fallen a considerable share of the monetary precedence held in pre-war years by London and before London

[25] Address to the Stockholders of the Midland Bank, January 24, 1918.

by Amsterdam. Besides the power accruing from gold holdings and from its position as an investment market, New York is rapidly coming to the front as a market for that money of international commerce, the bill of exchange. Prior to the enactment of the Federal Reserve Act, the national banks were not permitted to accept time drafts financing foreign trade. In consequence America's foreign trade was financed mainly in London. This subservient position was strikingly revealed in 1914. New York, the financial center of the western hemisphere, was so "helpless" that "we actually received a commission of British financiers and economists to discuss how Great Britain could help out the United States in solving the financial problems of the United States growing out of the fact that Great Britain was in the war."[26] There has been such a radical change in this respect that the international bill market in New York now vies with London for the privilege of accommodating world commerce. Explaining this situation, Governor Strong says:

> I have no doubt if you were on the Malay peninsula, talking with a producer of rubber who had a large shipment to make to New York or possibly to London, and he had banking facilities in both centers, he would go to the agency of some bank there, and say, "Now, what can I get for a bill in dollars or in sterling," and he would get a quotation from the bank which would be largely fixed by the knowledge that the bank manager had of the rate at which he could get discount for that bill, either in the London market or the New York market.[27]

The total of dollar acceptance credits outstanding at the end of 1927 was $1,080,581,000, or $325,000,000 greater than the figure recorded a year before, showing that many American export products formerly financed through London were financed through New York on account of the facilities and favorable rates obtainable in the fall of 1927 on this side of the Atlantic.

To this phenomenal record must be added the fact that New York has displaced Liverpool as the American cotton price con-

[26] Leffingwell, R. C., Address before the Investment Bankers' Association, December, 1918.

[27] H.R. 7895, 1926, p. 319.

troller; continental European spinners do practically all their trading on the New York market.[28]

Domestic politics and the difficulty of reconciling domestic with international requirements must for a long time frustrate the consummation of the degree of coöperation envisaged by the banking world. In the United States, the New York Reserve Bank was elevated in power in 1927 by the operation of a single rediscount rate throughout the system. This attracted more surplus funds than usual from the interior to New York. An agitation was under way at the end of 1927 which sought both to curb the easy money policy and to destroy rate uniformity on the ground that the surfeit of funds that had gravitated to New York had produced unparalleled speculation. Out of a total of $22,000,000,000 in the loans and investments of the reporting members of the system at the end of 1927, no less than $13,000,000,000 had been contracted in loans to brokers and in bank investments. Commercial credit taken up in 1927 actually declined from the 1926 figure, but the funds that went into the securities market, either in the form of direct bank investments in securities or in that of collateral loans against securities, advanced a billion and a half dollars. Of this amount, $800,000,000 was accounted for after July, having been the expansion of American bank credit caused by relieving the pressure on European bank credit.

If the supply of new money does no more than keep pace with the increase in production, there is in fact no inflation whatever; yet, though credit has been available in quantity much above commercial demand, the commodity price level has remained comparatively unperturbed, the inflation having been restricted to security and non-commodity prices, wages included. These phenomena are the subject of considerable study among economists. Some scout the success which Irving Fisher attributes to the new monetary policy, and doubt whether gold can be as irrevocably impounded as in India, where, being buried underground by individuals, it has no psychological influence on the country's economic

[28] *Cf.* evidence of William L. Clayton, of Anderson, Clayton & Co., Houston, cotton merchants, before the Senate Cotton Committee. *Journal of Commerce* (N. Y.), March 30, 1928.

operations. While not admitting "sterilization," they admit a certain degree of what might be called "neutralization." This is true not only in the United States but also in Europe, where credit policies are pursued to some extent independently of gold movements. Some point out that in the last six years there has been a radical change in commercial financing—that business is replacing its former dependence on bank loans with independent company financing. This, they say, would account for lack of business inflation, and explain the banks' activities in the stock market. Others continually foretell an upward movement in the commodity price level in sympathy with non-commodity trends such as accompanied the expansion of credit in 1917-1918 at the behest of war finance. They demand drastic measures on the part of the Federal Reserve banks to curb stock-exchange speculation. In opposition to the firmer money advocates are the Treasury authorities, who are at one with Europe in favoring easy money in the United States, because then they can convert the public debt cheaply.

It is obvious that the smooth working out of international banking coöperation in these domestic exigencies is difficult of achievement.[29]

[29] The above treats of conditions up till the end of 1927. Conditions are constantly changing, and they changed in many respects in 1928, in consequence of the increasing recovery of Europe and the growing domestic insistence in the United States for monetary policies less directly connected with larger world policies.

III.

THE UNITED STATES AND THE LEAGUE OF NATIONS

CHAPTER ONE

HISTORICAL PROJECTS FOR A SOCIETY OR LEAGUE OF NATIONS

THE same reasons which made it impossible for the United States to keep out of the Napoleonic wars, bringing us to undeclared war with France in 1798 and to open war with Great Britain in 1812, involved us in controversy with both sides within a month of the outbreak of the World War. The German assertion of a reprisal right to destroy American property and to take American lives because of the ineffectiveness of the American efforts to break the British blockade of Germany, made it impossible for us to stay out of the war unless we stayed on our own side of the Atlantic.

Some few Americans, not absorbed in the processes of war-making, gave their attention to the principles at issue, and saw that our political isolation was a chimera unless we were willing to accept economic and social isolation as its base, and hence that we should be drawn into any future war as we had been drawn into this war. It behooved them, therefore, to find a scheme to lessen the probabilities of war among the nations as the best way to protect American well-being. The business as well as the political interests of the country required that some international machinery be devised to make more stable relationships possible. They realized that the timeliness of any proposal in this direction would be cardinal to its success, because the fusing of sovereign states into a coöperative organization can best be accomplished while nationalistic rigidity has given way to the coöperative effort of war-making and the public conscience is aroused by the horrors and degradations of war. They foresaw that when emotions had cooled, separateness might again set in, the masses of people might be indifferent to possibilities which offered no immediate problem to their daily existence, and after a time there might grow up among a new generation which had never known war the ever-recurrent sophistry that war is necessary to keep the fiber of a nation manly and robust. So it was that during the World War,

as in the great wars of the past, some of the best minds devoted themselves to the problem of world organization to insure peace, and began to study with a new and living interest the schemes which had been proposed during the modern era.

The conception of a federation of states was a medieval theory which had been frustrated by the rise of the national state and its doctrine of absolute independent sovereignty. This doctrine was adapted to an agrarian civilization, when each state was self-contained as to raw materials, markets, and capital; it is only after a hundred and fifty years of the industrial revolution that, in spite of the sanctity of absolute sovereignty, men's minds have begun to grasp the idea of modern economic interdependence and the need for a coöperative organization. The economic difficulty has intensified an anomaly created by the emergence of the modern national state; the doctrine of sovereignty has produced as its corollary the doctrine of the "equality" of states, which consorts ill with the actualities of unequal power, but which has gained strength with the advance of civilization. A *régime* of "equals," with no law among them and without sanctions for their agreements, can properly be described as international anarchy.

For more than a century Europe had been engaged in practically continuous war on a scale never known in the Middle Ages when in 1638 the Duc de Sully [1560-1641], "as an ironical memorial to 'what might have been,' " attributed to his late master, Henry IV (who had been encouraged by the bold projects of Queen Elizabeth), the "Great Design" of constituting a vast European confederation.[1] This first attempt to reconcile the sovereignty of states with an international organization allowed to the states equal representation in a general council, but failed to take account of their inequalities of power; moreover, the scheme was in essence a political manoeuvre against Austria and Spain. In 1693, the humanitarian William Penn proposed a "General Dyet," which was to meet periodically as a legislature and as a court, and the judgments of which were to be enforced

[1] The best sketch of the matters discussed in this chapter will be found in James Brown Scott's Introduction to Ladd's *An Essay on a Congress of Nations*, first published in 1840. Oxford University Press, 1916. Carnegie Endowment for International Peace.

by the combined strength of all the states. To avoid offending the sovereigns on the point of their theoretical equality, he proposed a round assembly hall with such numerous doors that all question of priority in entrance and exit would be avoided. Then, at the close of the War of the Spanish Succession, the Abbé de Saint-Pierre [1658-1743], who had acted as secretary to the French plenipotentiary at the Congress of Utrecht, published a revision of Henry's "Great Design." He, too, proposed a great armed league for peace among the Christian sovereigns, excluding the Tsar. For the first time a provision was made for differentiating the states according to their real power by adding to the general council a small executive council whose membership was to be restricted to the five great European states.

Some of the early theorists were concerned with the causes as well as the cures of war, and a monk of the early seventeenth century, Emeric Crucé, in 1623 suggested commercial coöperation as the basis for peace. The Abbé de Saint-Pierre took up the idea, and Jeremy Bentham went so far as to propose, in 1786-9, the complete abandonment of the prevailing "colonial system" as a necessary reform in aid of peace.

Kant was probably the least concerned with the immediate cessation of battle and the most profound in his understanding of social tendencies and of the conditions essential to peace. Early in the Revolutionary wars he prepared his little treatise, *Zum Ewigen Frieden!* [1795]. He believed that peace, the greatest practical problem for the human race, would be achieved as the moral idea and enlightened self-interest developed among peoples. He proposed a federation of free states. The possession of republican institutions was set up as a membership requirement; there was to be a permanent congress; and standing armies were to be abolished. For the very reason that Kant's plan was less detailed and less pretentious than its forerunners, the present League is indebted to Kant for its basic principles.

During the Revolution there was in France a yearning for international fraternity which Lamartine has thus epitomized:

L'égoisme et la haine ont seuls une patrie
La Fraternité n'en a pas—

but a torrent of nationalistic feeling swept over Europe, and the allied sovereigns organized peace at Vienna on the basis of the maintenance of peace by vigilant authority. Under the domination of Metternich, the Holy Alliance as well as the Confederation of Europe, which had been inspired by the scheme of Saint-Pierre, was perverted into an agency for opposing liberalism and change everywhere, and it broke up, proving an instrument ill adapted to the needs of the age. Nevertheless, this failure contributed eventually through trial and error to a clearer understanding of the nature of international machinery.

During the nineteenth century the Concert of Europe performed a valuable though insufficient service by emphasizing interstate interests, and by seeking to prevent war or to alleviate its miseries. It was in no sense a league, and it was successful only when its members found it to their individual advantage at the moment to work together, and when the questions at issue concerned others more than themselves.

The problem of interstate organization which had at times occupied European minds offered a more imperative challenge to the early American statesmen and political philosophers at the time of the consolidation of the American republic. While having to preserve as much of individual sovereignty and equality as possible, they had the task of constituting a new government which would insure peace and coöperation among the states. They had to overcome provincial separatisms and cultural divergences; race antagonisms and intolerance were formidable. The journey then from New York to Charleston took twice as long as a trip from New York to Geneva today. The leading men of the different colonies hardly knew of one another even by reputation. The sectional prejudices of that day are illustrated by Washington's comment upon New Englanders as "an exceedingly dirty and nasty people," and in the reference of the father of Gouverneur Morris to "the craft and cunning so incident to the people of that country [Connecticut]." A brigadier-general wrote that Pennsylvania and New England troops would as soon fight each other as the British. When the Confederation was formed there were boundary disputes, trade rivalries, and such friction over finance

that the richest states sometimes refused to have anything to do with the paper money of the weaker states. Jefferson observed despairingly that whatever might arise between independent nations actually arose as broils among the states. As the state functions included substantially all the important powers affecting individuals and local communities, and as there was no potent neighbor state which could frighten them into uniting for common protection, it was hard to persuade the people of the need for a broad Federal sovereignty. Moreover, in those early days the economic links which bind together the states of the modern world were feeble.

The problem common to all interstate organization, of reconciling the claims to power by the large states with the claims to equality by the small, confronted the framers of the Constitution. The Constitution became "a bundle of compromises," and an original bicameral system was set up. As Madison pointed out, it was based on the idea that in politics men have to deal with effective powers and not with a mythical entity known as indivisible sovereignty. A smaller body was devised to represent equality, conservatism, and tradition, and was made a council of advice on foreign relations, the perilous field which needed all our available experience and sagacity. The more numerous body took into account the inequalities of actual power among the states and provided representation according to population; it was allotted an equal share in domestic legislation, together with a superior control over what was then considered the stronghold of democracy, taxation. This scheme for reconciling the interests of large and small states offered promise to future world organization. When federalism, severely tested by the Civil War, held together, the vogue of the federative principle was increased throughout the world.

THE LEAGUE TO ENFORCE PEACE

THIRTY-NINE years after the formation of the union, some Americans turned their attention to the larger problem of organizing the world for peace, and founded the American Peace Society, but it did not have a war impetus at its foundation, and

its achievements have not been impressive. In the first months of the World War a new movement sprang up spontaneously—the League to Enforce Peace. Some of the supporters of the American Society for the Judicial Settlement of International Disputes, founded in 1910, who had formerly opposed the use of force in international relations, were convinced by the war that force must be utilized, and the League to Enforce Peace is said to have owed its existence to this change of attitude. The League to Enforce Peace publicly endorsed a project consisting of four fundamental proposals: (1) justiciable disputes shall be judged by an international tribunal; (2) other disputes shall be submitted to a council for recommendation; (3) force shall be employed against any state that refuses to submit a dispute; (4) conferences shall be held from time to time.

The League to Enforce Peace made use of the American talent for organization. Counties were made the units of organization, and propaganda was spread in the manner of a political campaign; 2,300 newspaper clippings referring to the League were received at the central office during the week which ended February 3, 1917. A tabulation of editorial comments throughout this period showed approval by more than nine-tenths of the newspapers of the country, though it was recognized that much of this approval was temporary, and that opposition based on American tradition would appear at the end of the war. The avowed purpose of the movement was to impress itself on the Senate, for it was realized from the start that the danger to the success of a League project lay there.

The League to Enforce Peace consistently held to the view that it had better confine itself to the four simple principles first enunciated. It is of course essential to the popularization of any new scheme that debatable details be avoided so as to obtain a general sentiment of approval, and it was desirable to leave the delegates to the Peace Conference free to make the necessary adjustments in coming to agreement. A committee also formulated practical details in a draft convention, approved by the executive committee in March, 1918, but after conference with President Wilson decided to withhold the draft from public discussion and the press.

Another proposal, drawn up by a private group, was an adaptation of the Abbé de Saint-Pierre's scheme which set apart the Great Powers and entrusted them with greater authority and thus repudiated the doctrine of the equality of states. It provided for a permanent international council which was to be made up of three representatives from each of the Great Powers, and one representative from each of the other states, and which was to appoint a ministry of five members, invested with executive powers and permanently in session. It also provided for a council of conciliation and an international court, but the scheme did not offer an adequate handling of the causes of war, and lacked elasticity. It is noteworthy that the use of international force was a cardinal feature of both projects. Neither draft was widely enough circulated or stoutly enough advocated to embarrass draftsmen of the new Covenant of the League of Nations, but the four years' activity of the League to Enforce Peace served the League cause by preparing the public mind for its reception and by popularizing the ideal of international organization in behalf of peace.

PRESIDENT WILSON AND A LEAGUE OF NATIONS

Woodrow Wilson's conception of a league of nations was no war product, but a natural and essential part of his whole political philosophy. He had already proved the genuineness of his desire for international organization by the peace proposal which resulted in the Bryan conciliation treaties; by the projected Pan American League, which contained a mutual guarantee of territorial integrity by the use of force and which later became Article X of the Covenant; and by his reference of our dispute with Mexico to the A.B.C. Powers of South America. As early as the autumn of 1914 Wilson said, when looking ahead to the end of the war; "all nations must be absorbed into some great association of nations whereby all shall guarantee the integrity of each so that any one nation violating the agreement between all of them shall bring punishment on itself automatically." When Wilson was persuaded to speak at the League to Enforce Peace banquet in Washington on May 27, 1916, he endorsed the program of

that organization only indirectly, making no mention of force; but he advocated the general idea of a league with such ardor that he was henceforth regarded as its champion. It is worthy of note that at this same banquet Senator Lodge spoke on behalf of a world league and specifically favored the use of force. From this time on, Wilson carried the project forward by public addresses, including the speeches in his presidential campaign, and by diplomatic correspondence. Under his leadership a more elastic league gained favor. Wilson brought the League proposal to the attention of the belligerent statesmen by his peace note of December, 1916, which occasioned the formal commitment of the Allies in its favor. He followed this up by including the League among the Fourteen Points which he enunciated on January 8, 1918, as a suitable basis for peace. When the armistice was concluded, the Central as well as the Allied Powers had subscribed to the general principle of a league of nations. This left the task of formulating a specific and universally acceptable plan to the plenipotentiaries at the Peace Conference.

CHAPTER TWO

THE SENATORIAL ELECTIONS OF 1918

WHEN the war drew to an end, in the fall of 1918, the Congressional elections were at hand. Not since the Civil War had there been so much at stake in a Congressional election. Wilson had done his best in his individualistic way from 1914 to stimulate a public desire for a liberal peace and a new world order; but the country had been organizing the novel effort of war-making with single-minded energy and relish, and it was bewildered by the swiftness of the German collapse, the armistice, and the sudden stillness of the enginery of war. Men's minds were not ready for great decisions in a new political field; the mass opinion of 120,000,000 people orientates itself slowly in novel situations. The issues which the peace had to determine were not clearly presented to the electorate at this time, and discussion of the League was omitted from practically all the local campaigns, though it had figured in the 1916 Democratic platform, when it was not combated by the Republicans. Politicians had then considered advocacy of a league as a party advantage, but in 1918 the people were apparently not aware that their choice of Senators largely determined the kind of peace treaty to be made. Politicians of both parties decided to be non-committal on the great issue and to limit the political controversy to comparatively inconsequential local concerns. President Wilson's famous declaration that "politics is adjourned" may have served well the unhampered prosecution of the war by stamping partisan opposition to the administration's war measures as disloyal, but in the elections of 1918 the terms of the approaching peace were the issue, and an understanding of them would have been helped by the open elaboration of party policies. Comprehension of this required a more educated support than the waves of unquestioning enthusiasm accorded to President Wilson's war policies. It demanded open debate—to clarify the public understanding, to separate partisanship from sincere opposition.

Instead of this, under the political hush of the spring and

summer of 1918 accumulated all of the personal and class grievances which a period of economic, social, and psychological dislocation had produced. The burden of war-time taxation, the sacrifices of producers and middlemen under food-price regulation, the industrialists' dissatisfaction with war-time wages—all contributed to a restiveness under the disciplines of war. An impatient tendency grew up to associate inconveniences and hardships with the administration and their relief with the opposition, and the nation's complaints could not be answered by the clash of party with party, of criticism with vindication.

The Republicans, as early as February, elected a National Committee Chairman, and the Democrats followed suit. Under the respective leadership of Will H. Hays and Vance C. McCormick, both elected on pro-war records, the party machines were set in motion for the approaching electoral contest. By asserting their consistent loyalty to the President and by promising the most speedy and vigorous prosecution of the war, the Republicans sought to forestall Democratic claims of credit for the national successes: cautiously they seized upon the President's inclusion of "the abolition of economic barriers between nations" in his Fourteen Points to reiterate their protectionist policy and to stress the danger of an influx of cheap European manufactures after the war; with moderation they criticized the Census Bill as offering a loophole for Democratic political jobbery by leaving open to favoritism the appointment of census officials; government operation of railroads and other public utilities was branded as dangerously socialistic; war expenditures were scrutinized for evidences of graft. The Democrats based their appeal for continuance in power upon the merits of the war legislation: the draft, the Farm Loan Act, the War Trade Board, the Alien Property Custodian, War Risk Insurance, Labor laws, etc., and their administration of the Federal Reserve System, the Liberty Loan issues, and the railroads, telephones, and telegraphs.

Outside of these retrospective contentions and of the irrelevant shibboleths resurrected from campaigns of the previous decade, there were no electoral issues in the national sense. Prohibition, woman's suffrage, and farm legislation were non-partisan ques-

tions subject to opportunism in local platforms. Until the fall of 1918 little prominence in the press or at public gatherings was given to the choices before the electorates.

Besides the two major parties, there was, in the West, an organization representing class interests in the election. The Non-Partisan League, founded in North Dakota in 1915, had become national in ambition and had acquired some political influence in North Dakota, South Dakota, Minnesota, Idaho, Washington, Colorado, Nebraska, Iowa, Kansas, Oklahoma, and Texas. It gained control of important elements in the press and won the adherence of farm-labor socialist groups who hoped to profit by splitting the votes of the two major parties. The platform of this league, while pledging support to the President and the war, was directed toward government ownership of public necessities, federal standardization of farm products, federal subsidy of agriculture, heavier taxation of capital and of the "big interests," and the reduction of the middleman's profit. It took no position on foreign policy.

On October 25, Wilson issued an appeal to the nation to return to Congress a Democratic majority in order to assure uninterrupted continuance of the administration's policies, to permit unified and solidly supported control of the peace negotiations, and to prove to the Allies by a "vote of confidence" the popularity of the President's program. In it he termed the Republican Congressmen loyally pro-war but dangerously anti-administration, and emphasized the grave obstacles party opposition would create in the conduct of foreign affairs.

Ingenuously conceived, the manifesto was a political blunder. Instead of renewing the enthusiasm with which the public had acclaimed the President's demand that politics be adjourned, it furnished the unsleeping hostility of the Republican party managers with opportunity to retort that the war was not Wilson's war nor should the peace be his peace; that citizens of both parties who had contributed to the approaching victory were entitled to participation in making terms with the enemy; that the Constitution had not created a Senate as an automatic rubber stamp to approve the President's action but as a popular check against

executive absolutism. The spell was broken, and Wilson was portrayed by his opponents no longer as an inspired national leader but as a politician capitalizing the national struggle for the glory of his party. A long-smouldering hostility toward Wilson burst forth—attacking his methods and ignoring his principles. No coalition of parties existed, as in European countries, to keep it subdued.

This was the opportunity for which Republican politicians had hoped. The election could be contested with open acrimony and the President could be attacked with impunity. The truce was over. Chairman Hays published the Republican reply, couched in vitriolic terms. Roosevelt and Hughes broadcast vigorous addresses declaring war on the administration. Taft and Roosevelt buried their difference to issue a joint appeal for a Republican Congress to resume its full constitutional control and to assure the unconditional surrender of the Central Powers. Republicans asserted that they had not only exceeded the Democrats in loyalty to the war but had given the President more consistent support, and that Wilson's charge was mendacious. They pointed out that the message called for the election of Democrats, among whom at this time were numbered several pacifists, notably Henry Ford, and for the defeat of some Republicans impeccably loyal to the war. The restoration of the Senate's prerogatives and the reduction of executive power were demanded. Among the platform accusations made against the administration were: criminal waste in the administration of public funds; graft; the intention of negotiating a hasty peace, lenient toward the enemy and unacceptable to the Allied military leaders; a plan to involve the country in the European system of intrigue and military alliances in which the threat of war was an instrument of policy and in which war itself was possible at any moment.

In short, the ten days' interval between the President's message and election day was sufficient to lay the Democratic party open to disastrous attacks, but not enough to allow the popularization of any constructive party programs for the future. The strategic disadvantage at which the Democrats found themselves was ag-

ravated by the epidemic of Spanish influenza which prevented ublic meetings.

In the 37 senatorial contests—32 of them to replace Senators hose terms expired in 1919, five of them to fill vacancies made y resignations or deaths—the Democrats gained one seat, which ıd been occupied by a Republican, and lost seven, which they had ɔntrolled; this gave the Republicans a majority of two in the enate.

David I. Walsh, by defeating Weeks at the Massachusetts polls, ɛcame the first Democratic Senator from that state in seventy ɛars. His victory was attributed to his popularity as Governor, ı the success of the labor laws enacted during his administration, ıd to the substantial support he gained through his favorable .titude toward woman's suffrage.

In New Hampshire, Keyes, Republican, won the seat which had ɛen occupied by Hollis, Democrat, in a campaign in which there ıs no national question. In Delaware, the Democratic Senator, ıulsbury, was defeated by Hall, despite Wilson's appeal to the ɔters of that state to reëlect Saulsbury on the merits of his record supporting the administration. Elkins defeated the Demo- atic candidate, Watson, in the West Virginia elections, on a epublican high-tariff and win-the-war platform. The Illinois ıntest was a race between the Democratic senatorial "whip," ɛwis, especially recommended by Wilson for election, and the epublican candidate, Medill McCormick. The latter won by a ıall plurality in the rural districts and the Republican leaders, ming at the highest game, attributed his success to Lewis's sub- rvience to Wilson. Thompson, another strong Wilson adherent, st the Kansas election to Capper, who received the support of e Non-Partisan League. In Missouri a Republican, Spenser, was ɛcted to fill the vacancy created by the death of Senator Stone, emocrat; Spenser received the support of a considerable Ger- ın vote. Finally, Phipps unseated Wilson's candidate, Senator ıafroth, of Colorado, by a victory to which the Non-Partisan ɛague and the women's vote materially contributed.

In New Jersey, the Republicans retained the full-term seat and e short-term seat by the election of Edge and Baird, despite

Wilson's personal appeal to the electors of his home state to send the Democratic candidates to Congress. In Maine, Fernald, Republican, was reëlected; in New Hampshire, the election for the short-term seat was won by Moses. The support of the Democratic candidate by the labor vote in Rhode Island failed by a narrow margin to defeat the reëlection of Senator Colt, Republican.

Eight Democratic Senators were reëlected in the Democratic South. Four other southern states returned Democratic Senators, of whom Harris of Georgia and Harrison of Mississippi were nominated at Wilson's suggestion in the place of their predecessors. Stanley of Kentucky probably profited by the President's appeal of October 25, and Pollock of South Carolina was nominated and elected on a woman's suffrage plank.

Fall, Republican, was reëlected in New Mexico by a margin of only 2,400. In Iowa, Kenyon was reëlected on a platform announcing no definite policies save the establishment of a high tariff. At Wilson's suggestion that, owing to his record of loyalty to the administration, the Democrats should not offer a candidate to oppose him, the Republican Senator Nelson from Minnesota, running on a national prohibition platform, was reëlected by a large majority over the Non-Partisan League candidate. Sterling, Republican, of South Dakota, which was one of the states dissatisfied with food-price regulation, was reëlected with the support of the women's vote and the Non-Partisan League. The Nebraska primaries were the only ones to nominate a candidate outstandingly anti-war and obstructionist; Norris, Republican, was one of the "wilful twelve" Senators, and his reëlection was to a certain degree an answer to the Wilson manifesto of October 25. In Nevada, the Democrat, Henderson, won a short-term seat because of a division of the Republican votes between Roberts and the Non-Partisan League candidate, Miss Martin. Thomas J. Walsh, of Montana, won reëlection on the Democratic ticket, defeating the Republican and Non-Partisan League candidate. In Idaho both candidates of the Non-Partisan League were victorious—Borah, Republican, for the long-term seat, and Nugent, Democrat, for the short-term seat; Warren in Wyoming and McNary, in Oregon, both Republicans, were reëlected.

The forces which determined the several elections were sometimes local, sometimes general. They included support for or hostility to prohibition; the tendency of the business interests, large and small, to back the Republican party; pressure for a high tariff in industrial districts; objection on the part of food producers and distributors to the fixing of food prices, especially as the South had profited enormously from unregulated cotton prices; resentment in the states where General Leonard Wood was popular that the administration had not permitted him to go to France; the attitude of the Non-Partisan League or of its anti-agrarian opponents, and the enthusiastic support by the women of those who appealed for their new suffrages. There was virtually no issue contested and properly discussed which arose out of the policies that were the cause of our entering the war, of the degree of efficiency with which it was conducted, of the aims announced for the United States by its official spokesman, or of the effort which the United States was to put forth in the making of a durable peace.

The senatorial campaigns and election in Michigan resulted in a Republican victory whose legality was for the next four years the subject of party challenge, rendered the more bitter because the control of the Senate was at stake. Had the Democratic candidate won the election, there would have been a tied vote in the Senate, and Vice-President Marshall would have cast a ballot on the Democratic side, thereby organizing the Senate committees in favor of Wilson's peace policies. Newberry, the Republican nominee, was declared elected, however, and voted for the Republican organization of the Senate and against the ratification of the treaty.

Michigan had been considered a Republican state, and Henry Ford had been believed a Republican. During the summer of 1918 Wilson requested Ford, who was in no sense a politician, to offer himself for the Democratic candidacy. At the Democratic primaries Ford received a strong majority over Helme, and in the Republican primaries a vote of 72,000 was polled for him as against 115,000 for Commander Newberry, who became the Republican nominee. In the election Ford ran on a pledge to support President Wilson, and Newberry on opposition to Wilson and to his peace plans, on

advocacy of a woman's suffrage amendment and on labor legislation. The result was a victory for Newberry by a margin of less than 5,000. A contest of the election by Ford and the filing of charges started an investigation by a Senate sub-committee in 1920 which was not concluded until September, 1921. In the meantime, Newberry and 134 others were indicted on a charge of violation of the Federal Corrupt Practices Act limiting campaign expenditures to $3,750 in the case of Michigan senatorial primaries. Newberry was convicted and on November 29, 1919, was sentenced to two years in prison. The United States Supreme Court reversed the conviction on May 2, 1921, holding that "power to control party primaries for the designations of candidates for the Senate was not within the Congressional power to 'regulate the manner of holding elections'[1] . . . and its exercise would interfere with purely domestic affairs of the States"; that the XVIIth Amendment to the Constitution had not altered the rule; and that Section 8 of the Federal Corrupt Practices Act, applied to primary elections of candidates for a seat in the Senate, was unconstitutional.

On May 9, 1921, Newberry returned to the Senate from which he had absented himself since his indictment. The next Michigan senatorial election of 1922, was won by a Democrat, who was pledged to renew the attack on Senator Newberry, and this, together with the election in other states of Senators similarly pledged forecast that another proposal for the unseating of Newberry would be supported by 42 Democrats, ten Republicans, and one Farm-Labor Senator. Newberry resigned in November, 1922, before the Senate had convened.

[1] U. S. Const., Art. I, Sec. 4.

CHAPTER THREE

THE UNITED STATES DELEGATION TO THE PEACE CONFERENCE

ALTHOUGH the President's foreign policy had not been a primary issue in the election of 1918, the implication of a Republican victory after his demand for a vote of confidence placed Wilson at an embarrassing disadvantage in regard to the negotiation of the treaty. The manifesto he had issued was used to turn the tide of public opinion against him.

Wilson, nevertheless, proceeded with his peace program. With characteristic boldness, he announced his decision to head the American delegation to the Peace Conference. It was fitting that he should do so, inasmuch as the European Powers were to be represented by their premiers and he, as spokesman for the Allies, had been the most influential war statesman in formulating the principles upon which peace was to be made. Without Wilson it might have become a purely European peace, especially as it would have proved impossible to refer everything back to him; but the decision was without precedent and among a people who are sticklers for tradition in such matters it was easily attacked. There was no deliberate and carefully weighed opinion on the question, since everyone was more or less bewildered by the magnitude and swiftness of events.

Wilson appointed the additional members of the delegation seemingly without regard to the necessity of gaining Republican support for the treaty. Mr. Lansing, the official spokesman of Wilson's war administration, was of course appointed, for to leave him behind would have been a serious reflection upon Wilson's own choice of a Secretary of State; but he was known to be lukewarm to a league of nations and to oppose the kind of league that the forces at Paris were contemplating. Wilson had acted as his own Secretary of State by himself preparing and sending some of the most important notes to Germany. It was significant of their relations that, when Lansing ventured to object to Wilson's determination to go to the Peace Conference, "the Presi-

dent," as Lansing later stated, "listened to my remarks without comment and turned the conversation into other channels." At Paris Wilson announced to Lansing, a lawyer, that "he did not intend to have lawyers drafting the treaty of peace." When Lansing testified at the Senate hearings it was learned how little the President had confided in him and what an almost negligible rôle he had played at the Conference. The complete demonstration has been afforded in Mr. Lansing's book.

Colonel House had done yeoman service for Wilson as observer and reporter of political conditions at home, as a liaison with important circles in London and Berlin, and as a reporting member attached to the Supreme War Council in Paris—a Father Joseph to Wilson's Richelieu. His presence on the Commission, or at least at the Conference, was indispensable to Wilson because Wilson had entire confidence in him.

In the face of charges of partisanship, and without regard for the Senate's resentment at the solitary responsibility he had assumed, Wilson declined to choose the other two delegates from among the representative and influential Republican statesmen. Henry White had had an extensive experience in European diplomacy, and knew most of the European political leaders; he had played an admirable rôle at Algeciras, and he gave substantial help to Wilson at Paris. Unfortunately, neither he nor his views on the great issues of the Conference were known to Congress, to the American press, to the political world, or to the public at large; and the fate of the Treaty was to be affected to some extent by the charge that it represented Wilson's views and not those of other outstanding Americans. General Tasker H. Bliss, who had been the American military representative attached to the Supreme War Council, had a profound philosophy for the organization of peace and had thought far more than most Senators upon its practical possibilities; but, like Mr. White, the diplomat, he had been debarred by his profession from taking part in public affairs and from acquiring a political following, while his modesty had restrained him from giving public circulation to his ideas. This was not a group chosen for common deliberation and concerted action, and it was never supposed that a prevailing opinion of the members

would determine its positions. No more was expected of the other delegates than an individual helpfulness to Wilson, who, in important matters, made no use of any of them except Colonel House.

Notable Republicans were in men's minds in connection with the composition of the delegation. There had been a general sentiment favoring the selection of leading Republicans, especially those who were known either to have influence with the Senate or to be staunch supporters of the League. Lord Grey had even advised Wilson to appoint three Republicans, including Mr. Root and Senator Nelson. Opinions as to Wilson's reasons for not selecting any of the most conspicuous Republicans for his Commission depend largely on conjecture. It is known that Wilson regarded "a lawyer's mind" as a disqualification, and this objection may have applied to Mr. Root, and to Mr. Hughes as well. Many had looked to the appointment of ex-President Taft, who had taken an active part in the League to Enforce Peace. Wilson was known during the war to have refused Taft permission to make a speaking tour in England for the purpose of explaining American war plans and emphasizing loyalty to the common cause, having been apprehensive lest the tour might be regarded as involving the United States as an accessory to Britain's special war aims. Some people surmised that Wilson was unwilling to take Taft to Paris from fear that he might have too definite ideas as to the kind of league to be drawn up.

The other outstanding Republican Wilson might have chosen was the Chairman of the Committee on Foreign Relations of the Senate, Henry Cabot Lodge. Between these two men existed a strong party and personal animosity. During the presidential campaign of 1916 that animosity was inflamed by the postscript incident.[1] Through indirect channels Mr. Lodge had received private intimations of an administration secret, and in a campaign speech at Brockton, Mass., on October 27, 1916, he "asserted that Wilson had added a postscript to the second Lusitania note of June 9, 1915, in which he informed the German Government that the strong phrases of the so-called 'strict accountability' note of May 13 were 'not to be taken seriously'; and that this postscript disap-

[1] *New York Times,* October 28, 30, and November 1, 1916.

peared after members of the Cabinet had threatened to resign and to let the public know of the postscript." Called upon to issue a reply, Wilson telegraphed three days later: "The statement made by Senator Lodge is untrue." Lodge had somehow got hold of one thread of an incident at the White House and supplied other threads of his own to make up his story. Wilson, in fact, after the cabinet meeting and at Bryan's request, had consented to the simultaneous dispatch of an instruction to Ambassador Gerard indicating our willingness to submit the question to a commission of investigation; when the Cabinet learned of it by accident, their attitude caused the President to order the suppression of the supplementary instructions.

A more serious cause for Wilson's aversion from Lodge was the Senator's swift reversal of opinion in regard to the League. In a commencement address at Union College on June 9, 1915, Lodge had presented the most forcible arguments which could be drawn from history and the evolution of human society to prove that "the policeman, the soldier, is the symbol of the force which gives sanction to law, and without which it would be worthless," and that "there is no escape from the proposition that the peace of the world can only be maintained as the peace and order of a single community are maintained, and as the peace of a single nation is maintained, by the force which united nations are willing to put behind the peace and order of the world. Nations must unite as men unite to preserve peace and order." And he advocated "a union of civilized nations in order to put a controlling force behind the maintenance of peace and international order," even though he said, "No one is more conscious than I of the enormous difficulties which beset such a solution or such a scheme." The next year Lodge advanced the same view at the banquet of the League to Enforce Peace. But when, in January, 1917, Wilson addressed the Senate in favor of essentially the same kind of league, Lodge had cooled off, and he delivered an address which discredited the conception of any league built on the use of force.[2] Thus it ap-

[2] When urging our participation in the Algeciras Conference, Senator Lodge spoke of entangling alliances as follows:

"Washington was altogether too sensible and too practical a man to suppose that

peared to Wilson that Lodge's convictions as to the interest of world civilization were not so strong that he would not sacrifice them for the sake of party advantage or because of personal animosity.

The precedents, however, did not favor the appointment of Senators as diplomatic plenipotentiaries for the negotiation of treaties.[3] James A. Bayard and Henry Clay whom President Madison had appointed to the Ghent Peace Conference were so embarrassed by their twofold and conflicting duties—their duty of secrecy to the conference, and their duty to their congressional colleagues to disclose all they knew—that they resigned respectively from the Senate and the House before departing on their mission. When President McKinley appointed Senators to negotiate the Spanish treaty in 1898, the Senate objected so vigorously, insisting on the impossibility for a Senator to vote impartially on a treaty which he had negotiated, that the President assured Senator Hoar, whom the Senate had delegated to present the objection, that he would thenceforth discontinue the practice.[4] President Wilson was of course familiar with these precedents, and, having decided not to take the Chairman of the Senate Com-

because we were not to engage in alliances which might involve us in the wars of Europe, with which we had no concern, therefore we were never to engage in any agreements with any nation of Europe, no matter how beneficial they might be to the world at large or to ourselves. . . ." (Cong. Rec., Vol. 40, Pt. II, p. 1469.)

In his speech on May 27, 1916, at the first annual gathering of the League to Enforce Peace, he said:

"I think a next step is that which this League proposes and that is to put force behind international peace. . . . I know the difficulties which arise when we speak of anything which seems to involve an alliance. But I do not believe that when Washington warned us against entangling alliances he meant for one moment that we should not join with the other civilized nations of the world if a method could be found to diminish war and encourage peace."

In 1919 he opposed the entry of the United States into the League, saying:

"There is an issue involved in the League constitution presented to us which far overshadows all others. We are asked to depart for the first time from the foreign policies of Washington."

[3] In this connection Section 6 of Article I of the Constitution should be noted: "No Senator or Representative shall, during the time for which he was elected, be appointed to any civil office under the authority of the United States, which shall have been created, or the Emoluments whereof shall have been increased during such time; and no Person holding any office under the United States shall be a Member of either House during his Continuance in Office." Also see Section I, Chapter 3, "Domestic Control," p. 115.

[4] Hoar, *Autobiography of Seventy Years*, II, 47 ff.

mittee on Foreign Relations, he could not by any supportable reasoning take with him Senator Nelson or any other Senator.

A group of 1,300 aides and experts were picked to accompany the delegation. It was part of Wilson's conception of the new diplomacy that the application of principles was to be assisted by experts in history, geography, ethnology, economics, finance, and law. Wilson appealed for the coöperation of these experts, saying: "Tell me what is right and I'll fight for it; give me a guaranteed position." But this was not the same thing as deliberation on equal terms with colleagues of independent minds.

The popular enthusiasm which acclaimed Wilson in Europe was without historic parallel. He had become the spokesman of the people of the world; he alone of the war-time statesmen had expressed the longing of the inarticulate multitudes for a surcease of their anguish, and insisted upon a peace that by the use of practical and permanent machinery would open the door into a new world. These were solid bases for the enormous wave of emotion which carried Wilson to the zenith of his contemporary fame.

Never before in history had there been so general a conviction in favor of the establishment of a new institution, a coöperative enterprise of the nations for peace and well-being. The experience of the previous few years had exposed the inadequacy of ordinary diplomatic machinery. Everyone knew of Sir Edward Grey's inability to arrange a conference to avert the 1914 débâcle; all had suffered the disastrous consequences which the "balance of power" theory had brought. The violation of the neutrality of Belgium and Luxembourg demonstrated the need for a more fitting guarantee of the safety of small nations. Moreover, the Allied nations had paid a regrettable price for the early conduct of the war, when their insistence upon equality and independence of action had precluded that single leadership essential to effective coöperation. Only the direst necessities had forced them to relinquish some of the dearly prized attributes of sovereignty in order to set up the Supreme War Council in November, 1917. This brought the statesmen to experiment with schemes of joint management and the pooling of international resources, and the consequent lessons provided guides for the drafting of the League

Covenant. The inestimable usefulness of the inter-Allied war controls furnished the strongest argument in behalf of some peace-time venture in international coöperation. Indeed, these experiences of the war, together with the precedents of the two Hague Conferences, furnished the essential principles on which the League was built: a world league in place of an alliance of victors; regular and frequent conferences; a permanent secretariat; and a territorial guarantee in behalf of small nations.

During the course of the war, the publication by the Soviet Government of the secret commitments of the Allies revealed to the general public the kind of bargaining which had taken place. These commitments promised the transfer of blocks of territory with their helpless inhabitants to induce entry into the war or continuance in it. It was learned, for instance, that the Allies had assured Italy, by the Treaty of London, "a just share of the Mediterranean region adjacent to the province of Adalia" in case Turkey were divided up at the end of the war. The peoples denounced this old secret game of diplomacy and asked for a new kind of statesmanship, the agitation gaining a momentum to which Wilson gave a leadership and which no statesman could well ignore.

CHAPTER FOUR

THE CREATION OF THE LEAGUE OF NATIONS

ALTHOUGH the European leaders had responded to the popular clamor by eulogizing the notion of a league and by allowing Wilson's talk about a new diplomacy and a new order to pass uncontested, none of them had adopted these new principles with the grim earnestness of the descendant of Scotch Covenanters. Clemenceau, Lloyd George, and Sonnino came to the conference at Paris with objectives of an entirely different sort from those of Wilson. The primary interest of France was security, and Clemenceau's program included military and political guarantees of the French frontier, reparations, and friendly relations with the United States. Lloyd George had pledged himself by campaign speeches in the December elections to "make Germany pay and hang the Kaiser," and he felt bound to strive for the conciliation of the Dominions by the annexation of German colonies. Italy was chiefly interested in gaining opportunities for economic development, outlets for surplus population, and the annexation of the Irredentist lands. Clemenceau, Lloyd George, and Sonnino knew one another well, and spontaneously pursued a common line. They were prepared for *a* league, or for the League that was formed, but essentially their attitude was that a league was not so important as Wilson was making it out to be; the "practical" settlements of the treaty were the thing!

Wilson arrived among them as the great unknown factor. His freedom from selfish national objectives was disconcerting; they could not understand his determination to bring about the creation of a league as a matter of far greater importance than the satisfaction of national war aims. The result of the struggle over these purposes, divergent rather than hostile, was that the two parties got on each other's nerves. The European heads had not expected Wilson to carry the subjects of his inspirational preachments into the secret deliberations of the Big Four, and the more insistent he became, the more he "addressed" them on the subject, the more

certain were they that his fixed idea was more or less visionary—unobjectionable, to be sure, but not so important as he would have them think. They were inclined to stick together, in order to "get on with the business"; Wilson on his side became more set, more suspicious of motives. In the end he achieved his purpose and made the first practical organization of the world for peace, though the statesman's reward, the adhesion of his own country to his plan, was not to be his. The strain at Paris was terrific, for Wilson had not only his great aim in the creation of the League, the aim of America as he saw it, to win, but he had to struggle also with the war-flushed victors of Europe to obtain their consent to peace settlements fair enough to endure. When other plenipotentiaries were enjoying relaxation and recreation from the arduous work, Wilson was closeted with experts, documents, books, and reports. It is remarkable that his health bore up as long as it did, for the process of arteriosclerosis from which he suffered is accelerated by strain and fatigue.

Wilson's objectives at the Peace Conference were few and clear. In his mind the League was the symbol of them all, and the incorporation of the League in the treaty became the issue on which his whole program depended. He had made up his mind about this before the Conference opened and had made his decision public in September, 1918, saying: "As I see it, the constitution of the League and the clear definition of its objects must be a part—and in a sense the most essential part—of the peace settlement itself." He went on to say: "We still read Washington's immortal warning against 'entangling alliances' with full comprehension and an answering purpose. But only special and limited alliances entangle and we recognize and accept the duty of a new day in which we are permitted to hope for a general alliance which will clear the air of the world for common understandings and the maintenance of common rights." He coined the phrase "disentangling alliance" to characterize the League. Foreseeing the impossibility of creating a completely just treaty of peace, he said "there is no man and no body of men who know just how it ought to be settled," and for this very reason he became more firmly resolved upon the necessity of a permanent league, saying at Manchester, England, "If we

are to make unsatisfactory settlements, we must see to it that they are rendered more and more satisfactory by the subsequent adjustments which are made possible." As the Conference proceeded Wilson became even more insistent, for he began to doubt whether all the states would join the League if it were separated from the treaty.

On the first day of the Conference, Clemenceau offered a plan of procedure in which the League discussions figured last. Wilson countered this the next day by proposing a list of subjects with the League as the first item. A British resolution accepted Wilson's list, but referred the League question to a special committee. Wilson hesitated to acquiesce in this resolution, for he saw that it left the Council of Four free to take up what interested them most, questions whose controversial aspects might imperil the moderation and fairness he was struggling to promote, and he obtained general acceptance of an amendment securing the creation of the League "as an integral part of the general treaty of peace." He took the occasion to make his point clear: "This is," he said, "the central object of our meeting. Settlements may be temporary, but the actions of the nations in the interests of peace and justice must be permanent. We can set up permanent processes. We may not be able to set up permanent decisions."

Wilson had thus succeeded in carrying his first point but he suspected, perhaps unjustly, that his European colleagues were attempting to thwart his main contentions by the practice which he described as "acceptance in principle but negation in detail." Clemenceau, Lloyd George, and Sonnino, who had been firm in excluding small nations from the important deliberations of the Council, insisted that these same nations should have representatives on the League Commission; it is less likely that they were trying to frustrate Wilson than that they thought it important to stop the small nations' clamor by giving them a share in an enterprise of general concern. Wilson, at any rate, accepted the suggestion. At the same time, he astonished everyone by making himself chairman of the Commission. The effect was to shift the center of interest during the first part of the Conference from the Supreme Council to the

League Commission; and the League project, contrary to the expectations of all delegates, became a matter of prime importance.

The other negotiators were now awakened to the necessity of exerting their full powers to get the kind of peace settlement they wanted. When on the day following the decision to set up a League Commission Lloyd George opened a discussion on colonial matters, although this topic came last on the agreed list, he was instantly supported by Clemenceau and Sonnino, the object of all being to hurry on the division of the German colonies and their apportionment before the League Commission could set up a mandate system. It was a repudiation of the fifth of the Fourteen Points, as well as an indirect attack on the League plan. Wilson was obliged to defend an institution which had not yet been established even on paper, and to battle for the adoption of a mandate scheme whose details the Commission had not yet had time to work out. He refused to agree to annexation, and was inflexible in his insistence upon a mandate arrangement. The French gave vent to their thwarted hopes and exasperation by launching a press attack upon Wilson personally, deploring his impracticable ideals. The British decided to make the best of the situation, and by allowing Wilson to call these colonies "mandates" to hasten their immediate parceling out. So it happened that, except for its last clauses, the Covenant article on mandates was not written by the League Commission but was a resolution of the Council of Ten on January 30, 1919. This was the first of a long succession of battles which pivoted upon the League.

Wilson now devoted his energies to driving the League Commission[1] at full speed. The Commission entrusted with formulating the Covenant was the strongest which sat on any question throughout the Conference. It proved to be far more liberal-minded than the Conference as a whole. David Hunter Miller, who was present as American legal adviser, gives the following testimony: "That the men who created that paper [the Covenant] were working with a noble purpose, with a wish for peace, and with a singleness of heart which is without precedent in the annals of diplomacy,

[1] The standard work on the drafting of the Covenant is that by David Hunter Miller, *The Drafting of the Covenant,* 2 vols.

that I know." The Commission produced the first draft with phenomenal rapidity; on February 14, after only ten evenings' work, while doing their regular days' work at the same time, it laid a preliminary draft of the Covenant before the Plenary Conference.[2]

THE RECEPTION OF THE LEAGUE PROJECT IN THE UNITED STATES

THE next day Wilson sailed for home, bearing the Covenant with him. His short stay in Europe had been an enormous personal success; his great project, the drafting of a Covenant, had been accomplished. Yet the American people made no such response as he had expected. In his struggle in Paris, Wilson had taken steps beyond the limits marked by American traditions and the conventional understanding of the mass of the people. He did this with his eyes open, thinking he could persuade the country to follow right as he saw it. Early in the war he said, "We are participants, whether we would or not, in the life of the world. What affects mankind is inevitably our affair." He believed, therefore, that he was best serving American interests by providing an effective organization for the betterment of world conditions and the removal of the menace of war. He understood this to be the realization of those war aims for which American soldiers had given their lives; he felt, moreover, that America, as a co-belligerent, was morally responsible for making at least this one contribution to the peace. He was astonished and dismayed at the reception of the Covenant by his country.

The American attitude toward the Covenant, though not immediately critical, had a critical background. In the first place, there was doubt as to the ability of any one man to represent the American people. Criticism of Wilson himself had been stirred up by this time; he was censured for his "autocratic" methods, or for the opposite weakness of having been duped in Europe, or for

[2] The amount of work done at Paris by Wilson has never been generally known in the United States. The records of the Council of Four "comprise 206 meetings in 101 days (including 15 Sundays) and occupy ten large foolscap volumes of typescript."—Pamphlet by Sir Maurice Hankey, *Diplomacy by Conference*, p. 18.

having yielded on American principles, such as open diplomacy and publicity at the Conference. Wilson's personality had never aroused the same popular affection as Roosevelt's. Wilson failed to respond to the American people's desire for information by making an adequate presentation of the story of the Conference or of the drafting of the Covenant of the League; he gave neither a satisfactory account of the formation of the Covenant nor an adequate exposition of its articles; he failed to make use of the League to Enforce Peace or to ask for the collaboration of its leaders in explaining and popularizing the League. On the second day after his landing he called together the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations for a dinner at the White House, but, if we accept Lodge's account, "Wilson answered questions about the drafting of the Covenant for about two hours and told us nothing."

Shortly after this Lodge and Knox made speeches in the Senate attacking the League in order to show that "the League should not be yoked with the Treaty and risk dragging both down together," and that a general peace treaty, separate from the Covenant, should be negotiated as quickly as possible. This was followed by a political move on the eve of the adjournment of the Senate; the declaration commonly known as the Round Robin signed by thirty-nine Senators was read into the Senate Record by Lodge. It served the purpose of announcing to Europeans as well as to Americans that a sufficient number of Senators were opposed to the League and to its inclusion in the Treaty to defeat the ultimate ratification of the entire Treaty. Its effect on Wilson was to harden his determination not to alter his program or change a word of the Covenant.

The President's action during his first stay in Paris was to this extent publicly repudiated. Anticipating such Republican opposition Wilson had adopted the last desperate resort of a President in attempting to compel the compliance of the Senate—namely "to get the country so pledged in the view of the world to certain courses of action that the Senate hesitates to bring about the appearance of dishonor which would follow its refusal to ratify."[3]

[3] Woodrow Wilson, *Congressional Government*, pp. 233-4.

Wilson's Metropolitan Opera House speech challenged the Senate with these words: "When that Treaty comes back, gentlemen on this side will find the Covenant not only in it, but so many threads of the Treaty tied to the Covenant that you cannot dissect the Covenant from the Treaty without destroying the whole vital structure." He thus assumed a bold front before it became clear that a desperate remedy was necessary; his open and defiant proclamation put the opposition Senators on their mettle, as Mr. Lansing says, "to defeat a President whom they charged with attempting to disregard and nullify the right of the Senate to exercise independently its constitutional share in the treaty-making power." The dim outlines of a gigantic struggle were blackening the horizon.

THE LAST STAGE OF THE PEACE CONFERENCE

Wilson, having found that the Covenant was thoughtfully discussed by some of the American leaders, adopted all their suggestions except that excising Article X.[4] Accordingly, he proposed and defended on his return to Paris the amendments to the Covenant which stipulated that the Monroe Doctrine be specifically recognized, that domestic questions be reserved, and that withdrawal be provided for; that the Council act by unanimous consent; that no nation be a mandatory without its consent; and that the language of the Covenant in certain respects be revised. The French objected to the insertion of a Monroe Doctrine clause, and it was only after Wilson had replied in what is reported to have been "an extempore speech of bewitching eloquence" that they acceded reluctantly to the inclusion of the article. The clause regarding domestic questions, as cabled by Mr. Taft, and the other amendments, were accepted without great difficulty. In the course of five additional sessions of the League Commission in the early part of April, Wilson had succeeded in gaining the acquiescence

[4] Article X of the Covenant reads as follows:

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. In case of any such aggression or in case of any threat or danger of such aggression the Council shall advise upon the means by which this obligation shall be fulfilled.

of the European Powers in these purely American revisions. As Hamilton Holt pointed out, the Republican party had reason to feel gratified by the contribution which it had made to the Covenant: except for Mr. Root's suggested inspection of armaments, the only point which had not been accepted was that intended to nullify or strike out Article X; four of Root's nine suggestions were fully adopted, with three partially recognized, six of Hughes's seven points were accepted, and all five of the proposals of Taft and Lodge were incorporated in the revised Covenant.

During the last part of the Versailles Conference national rivalries were at such a pitch that negotiations were near to rupture several times. Each plenipotentiary was forced to compromise, yielding in matters which he held most at heart, and curtailing his demands. Lloyd George obtained a number of "C" mandates for the Dominions which practically amounted to annexation; yet he shouldered a large and unpopular responsibility by signing the treaty of guarantee for France. France gave up her demand for a separate Rhineland, but secured the occupation of the left bank for a period of fifteen years; in return, the United States and Great Britain pledged themselves to come to the immediate aid of France in case of unprovoked attack. Italy modified her most extreme demands and was brought to accept the internationalization of Fiume. Japan was unable to insert a clause in the Covenant establishing the principle of equality of races and the just treatment of aliens because England and America frowned upon a proposal which would have brought the status of Japanese subjects in California and in the British Dominions within the ambit of League interest. A special concession was made to her in regard to Shantung. Inability to come to an agreement on the reparations question constantly threatened to disrupt the Conference, and no one was satisfied with the compromise which was finally agreed upon.

The Supreme Council found a number of problems insoluble, and, treating the League as a living organism before it existed, they turned these matters over to it for settlement in the future. Thus formidable tasks were imposed upon the League long before any of its machinery had been set up. Indeed, it was impossible at that time to visualize what the nature of the League would be, for

the Covenant as finally drafted at Paris is remarkable for its elasticity. The scheme was based on practical experience rather than on abstract principles, and its authors had the good sense to set up a framework which would allow free development. It might become a great central authority, or its sphere of action might be limited to secondary matters. The various continental schemes, and the drafted proposals of the League to Enforce Peace in the United States and of the League of Free Nations Society in England, expressed the views of jurists and international lawyers who had put chief stress on the judicial settlement of disputes. The Commission at Paris, on the contrary, approached the subject in the light of the Allied war experience and entrusted the greatest responsibilities to a political body, the Council, representing the actual distribution of the political force of the world, in the hope that by one device or another, as exigencies required, it would preserve the peace in time of crisis, and that the coöperative machinery of the League would become more and more useful to the world at large and in time would create a new pacific attitude.

CHAPTER FIVE

THE ATTITUDE OF THE AMERICAN PUBLIC TOWARD THE TREATY AND THE COVENANT

WILSON was severely blamed in this country for having acquiesced in the compromises of the Treaty. American critics seized upon the Shantung arrangement as the most flagrant departure from justice. When it was learned that three of the four members of his delegation had given him a joint memorandum advising him not to yield on this matter, the public concluded that he could be charged with having failed to defend American principles, and with being an accomplice in the guilty settlement. When the Senate Committee pressed Wilson to tell why he acceded to an arrangement which he admittedly disapproved, Wilson gave his reason as "Only the conclusion that I thought it was the best that could be got under the circumstances." In adding pensions and separation allowances to the reparation terms he had offered Germany he accepted the position of the memorandum prepared by General Smuts, and his outcry against "logic" seemed an emotional effort to defend a decision that disturbed his conscience.[1] General Smuts in his turn, after signing the Treaty, eased his conscience in a manifesto reprobating the tenor of the Treaty and justifying it only because such a Treaty was inevitable and because the League could be trusted to remedy its specific injustices.

Wilson was forced to yield on the first four of his Fourteen Points, and these were the principles which introduced a pacific spirit into the "Decalogue of Peace"; but it is not seriously doubted that he battled valiantly with a "task of terrible proportions," that he exerted every ounce of his energy in behalf of the principles which he had proclaimed and which the peoples of the world had appeared to sanction, and that he held out tenaciously against tremendous odds as long as he believed there was the slightest chance that the principles of an equitable peace might prevail.

[1] See p. 336.

In 1919 and during the years immediately following, the Peace Treaty appeared to the majority of Americans as a failure. Those humanitarians who had expected a millennium felt pessimistic, as did General Smuts, who said: "It was the human spirit that failed at Paris. It was not Wilson who failed there but humanity itself. It was not the statesmen that failed so much as the spirit of the peoples behind them." To the conservatives, it appeared that our negotiators had been too unselfish, and that the Treaty contained too many new-fangled projects such as the plebiscites, the internationalization of cities, the International Labor Office, and the League. There were few historically minded persons who looked at the Versailles Treaty in the light of the peace treaties of the past to obtain from such a comparison a correct evaluation of the modern treaty.

The political opposition to the League, which developed swiftly at this time, had some solid bases in public opinion and emotion. The American and Wilsonian conception of a League was idealistic and ideological. It was not related, as in Europe, to American necessities, but was one of those evangelical movements which appeal to the Puritan spirit of America as "compensation" for its absorption in the day's work. Wilson, had he been at the acme of his powers, might have held the popular imagination and led this spirit of America to a hearty and enthusiastic endorsement of the Covenant; but he came back from Europe wearied by an excessive application to the solution of those intricate world problems which had been newly revealed to him in their concreteness and which weighed heavily upon his heart and mind. He had a serious breakdown on April 3, 1919, and during the remainder of the Conference was increasingly handicapped by illness.

When the 66th Congress opened, May 19, 1919, with a Republican majority in both Senate and House, Wilson had a chance to win, but only by making no mistakes in tactics. American sentiment was cooling; the eagerness of business to demobilize and return to the habits of the business hive and the pursuit of profits was paralleled by a tendency in the political field to revert to the American tradition and to reject responsibility for maintaining peace in Europe. The early basis for the American peace move-

ment, as embodied in the League to Enforce Peace, was the view that Europe needed a material power on the side of righteousness, a military force that could put down nationalistic aggression. It grew in popularity as a proposed cure for all ills, but when the crusade was found to require a new international orientation and to entail burdens and sacrifices, the people were disappointed and turned away.

By the spring of 1919 America was sick of war; the emotion aroused by her war casualties was fresh, and it was easy to arouse an antipathy to the League by focusing attention upon those articles of the Covenant which contemplated war making of a police character.

The isolation of the United States in the past half century had kept the public ignorant of the facts of international relations; the suddenness of its education, provided by newspaper reports on the Peace Conference, gave a repellent impression of intrigue and selfish quarreling. The unsuspected complexity of the problems was so bewildering to the inexperienced American mentality that the people were eager to limit political questions once more to familiar local concerns. There was a return to the old platitude that the innocent and gullible American delegates were "no match for the wily Europeans," and to the opinion that America was so great, so self-sufficient, so untarnished, and so different from the rest of the world, that she had no need, such as Europe had, for participation in a League of Nations.

Another factor in the American attitude in regard to the League came from what Sir Arthur Salter describes as "the immense centrifugal force of national separatism which developed as soon as the war ended."[2] In order to win the war the Allies had abdicated their economic sovereignty and had created inter-Allied "controls" over the international aspects of economic life, purchasing, distribution, and so on. There were reasons for continuing the new scheme of inter-Allied control, in order to repair the damages which the war had caused; but when the vital necessity for common action had ended, the spirit of independent national-

[2] Salter, *Allied Shipping Control*, p. 266.

ism, which, carefully managed and directed, had been intensified as an aid to the conduct of the war, became too strong for its bonds.

The antipathy of business men to governmental interference in their field had yielded only temporarily under the fervor of the war passion and the war energy; as soon as the destructive side of the war had ended, their old prepossessions returned to habitual moulds. The dissolution of the inter-Allied committees, chiefly at the instance of American business interests, showed the prevailing impatience with war controls. This impatience was illustrated by the break-up of the Allied Maritime Transport Council. Within two days of the armistice Sir Arthur Salter, on behalf of the British Government, officially communicated with France, Italy, and the United States, suggesting that the Allied Maritime Transport Council be transformed into a General Economic Council to coördinate the work of the various councils and committees, and to deal with questions of special urgency in regard to reconstruction of devastated territories, distribution of scarce commodities, and reciprocal concessions among the Allies in regard to foodstuffs and other essential commodities. The French and Italian Governments were willing to accept the proposal. The plan became inoperative through the refusal of coöperation by the United States; the armistice tasks were imperfectly understood in America, and the American Government, influenced by the pressure of American business interests, was eager to terminate all war systems and to get away from the war spirit as quickly as possible. The experience in coöperation and the momentum created by that experience were thrown away; it proved impossible to provide a substitute organ to handle these tasks at all quickly or effectively. The dissolution of the Allied Maritime Transport Council cost Europe three months of delay in beginning reconstruction and produced incalculable confusion. The League eventually revived as much as it could of the functions which the war had shown capable of international management.

The general attitude of leaders in the American business world toward political coöperation abroad, in the League for instance, was illustrated by the remarks made by Henry C. Frick to an interlocutor sent to him by the Senate group of irreconcilables. "As I

understand it," he said, "the proposition is to pledge the United States, now the richest and most powerful nation in the world, to pool its issues with other countries, which are largely its debtors, and to agree in advance to abide by the policies and practices adopted by a majority or two-thirds of its associates; that is, to surrender its present right of individuality of action upon any specific question whenever such a question may arise."[3] For such reasons Mr. Frick and other financial leaders contributed to the fund raised to finance the opposition to the Wilson pro-League campaign.

Politicians were quick to capitalize this centrifugal force and to base their popular appeal upon it. There were eloquent exhortations for the government to "bring our boys home" and glorifications of America to the belittlement of the rest of the world. On September 16, 1919, Senator Lodge said in the Senate: "I think now, as I have always thought and believed, that the United States is the best hope of mankind and will remain so as long as we do not destroy it by mingling in every broil and quarrel that may desolate the earth."

The cosmopolitan nature of the United States also had its effect upon the fate of the League. The many Americans who retained an active interest in the lands of their origin had known strict repression during the war and began to make their influence felt at this time. The Irish made strong objection to the League because it was organized under British influences and was not expected to aid the Irish cause; added to this was the anti-British feeling of that section of American opinion that knows no England later than that of 1783.

There is a striking parallel between the psychology of approach during 1787-1788 to "a more perfect union" of American states and that in 1919 to the organization of the states of the world. When the Constitution of the United States of 1787 and the Covenant of the League of Nations of 1919 were respectively presented to the American people, arose against each a similar opposition, instinctive in its psychology. In both cases the novelty

[3] Harvey, George, *The Life of Henry Frick*, pp. 327-8.

of the plans unsettled thought-habit and aroused fear; and fear generated jealousy and suspicion. These led to the belief that because others gained, we must lose, and that someone had deliberately "let us in." This brought the conviction that we were safest as we were, and that if we could only keep "them" at arm's length we should do well enough, for it was those "others" who had always managed to disturb the peace of the world. There were bogey fears and specific alarms, and then excuses for the fears and a rationalization of the attitude of opposition. Some of the addresses of Senators in 1919 were echoes from speeches of the opposition leaders of 1787-1788. Melancton Smith denounced the Constitution of 1787 in a speech in the New York Convention and, referring to the proposed Senate, said: "Can the liberties of three millions of people be securely trusted in the hands of twenty-four men? Is it prudent to commit to so small a number the decisions of the great questions which will come before them? Reason revolts at the idea." A Senator from New York caught the same alarm in 1919 when he said: "Has the time come when the people of the United States are ready to rely upon the judgment of one man, sitting at the capital of Switzerland, who, by his vote, may pledge the support of the people of the United States to an undertaking with which they are utterly unfamiliar?" The opposition in 1919 unwittingly repeated the criticisms made in 1787-1788 against the Constitution when they charged the framers of the Treaty with having deliberated like an aristocratic body behind closed doors and with having exceeded their powers.

PRESIDENT WILSON

But whereas the opposition had run along similar lines in both instances, the nature of the support given to them was different. There was no group of great men in the summer of 1919 comparable to the writers of the *Federalist* to explain to the people the need for the League, its nature, and its anticipated operation. The long travail of the Revolutionary period and the sufferings in difficult years of the Confederation had convinced the states of the vital need of reconstruction and of any sacrifices of prestige or inde-

pendent action necessary to that end; those same experiences had developed a group of remarkable statesmen, and tempered their thinking and their characters in the forge-fire of anxiety and sacrifice. These men rallied spontaneously to an idea which was no newer than everything else political in those new times. Parties had not yet formed, and political and personal antagonisms had not yet crystallized.

One hundred and thirty years later the soil for statesmanship was no longer virgin. Party politics was paramount to ideas; and a problem of the first magnitude in foreign relations was a rare phenomenon—so rare indeed that many of the political coteries thought its chief importance lay in the use that might be made of it in the unceasing domestic contest for place and power. And on the later occasion the United States had just come out of a war which had caused it neither serious apprehension nor grave sacrifice; indeed, the effort it had put forth and the war organization it had found itself capable of creating had made it for the first time conscious of its tremendous power and its almost complete immunity from the dangers which seemed to attend upon all other nations.

It is not the province of a survey to pass moral judgments, nor to determine how far the failure of the United States to adhere to the Covenant is to be attributed to personal characteristics of President Wilson, or to the sum of them which we call a man's "temper." It was asserted that he did not try to obtain the cooperation of influential and able men of public spirit in conveying the conception of the League to the people; that although he professed faith in the worth and perfectibility of humanity at large, he was loath to mingle with it and preferred to apostrophize it from above; that he had little dexterity in managing individuals because he was not much interested in them, and, to quote John Morley,

> had never mastered that excellent observation of De Retz, that of the qualities of a good party chief, none is so indispensable as being able to suppress on many occasions, and to hide on all, even legitimate suspicions.

There can be no doubt that Wilson's want of instinct for organization, a characteristic of his well-differentiated intellectual type, was a handicap to continuous political success in an era of intensely elaborated party machinery. He trusted in the effectiveness of ideas, not realizing how seldom the enthusiasm shown in popular applause translates itself into appropriate acts, and how much must be done between the general understanding of a project and its accomplishment. Men of a high type of political idealism, men with the apostolic fervor of a Savonarola, often find prolonged action in common with others an irksome discipline, and become irritated at intellectual error and at opposition.

Wilson had an incurable indisposition to collaborate with vigorous equals. He described Lincoln as one who "comprehended men without fully communing with them"; but Lincoln, though melancholy by nature, loved and strengthened himself by human contacts and suffered fools and opponents without wincing. Wilson's description is more characteristic of Wilson himself.

When all this is said, however, it could not be denied by Wilson's opponents that the creation of the League of Nations was his doing, in the sense in which we attribute a monumental achievement to the leading artificer, or even in the more pronounced sense that but for Wilson there would be no League. Nor can it be denied that the very qualities his opponents disparaged were the qualities which brought him success in his struggle at Paris—the apostolic zeal, the pursuit of an idea in disregard of human relationships, the Covenanter's stiffneckedness.

These qualities were characteristics of disposition, such as all men must have of one sort or another if they have personality; "to be this," as Justice Holmes remarks, "is to be not that." The tumult Wilson aroused, the violence of his opponents' rage, was a consequence of his insistence that the world consider new ideas and prepare itself for a new era. The testimony of his larger success is that it is impossible today to discuss international affairs without employing Wilsonian terms.

CHAPTER SIX

THE SENATE AND THE LEAGUE

WILSON'S task required him to secure the two-thirds vote in the Senate necessary to the ratification of the Treaty. Its fate did not depend solely on the domestic struggle for the control of foreign relations which had been bequeathed to the Senate by the Constitution, nor on the partisan motives which determined a number of the votes, but partly on the fact that the Senate was unfamiliar with European conditions and impatient of the study necessary to envisage the setting of the new institution and the lines of its probable development under the principle of unanimity. Some Senators devoted themselves mainly to the lawyer's task of considering not what the parties intended to do, not what their common interest and reciprocal attitudes would make it advantageous for them to do, but the extent of the damage to national interest that could be wrought in extreme cases under the contract. "It is more easy," said Hamilton, "for the human mind to calculate the evils than the advantages of a measure."

When the Senate convened in May, 1919, Senator Lodge was convinced that the Treaty could not be defeated by a straight vote, because "the vocal classes" as he called them, a category which included the newspaper and magazine editors, teachers, religious leaders and lawyers, endorsed the League. His estimate of the popular support given to the League was corroborated during the summer by resolutions approving the League and favoring our entry into it, passed by such various and representative groupings as the American Bankers' Association, the American Bar Association, the American Federation of Labor and, under Senator Crane's leadership, the Massachusetts Republican State Convention. Lodge foresaw the need for careful and systematic organization of the opposition forces and he consulted Senator Borah for advice. They decided to proceed by way of amendment and reservation. That their purpose was to defeat and not to improve the Treaty by this method is indicated by Lodge, who records that Senator Borah promised to vote against the Treaty in the end

even though all the amendments which he favored should be adopted.[1] Senator Lodge declared privately that he had studied the mind of the President, had proposed resolutions which he was confident the President would reject, and that he was prepared to add to them if it were necessary, his purpose being to have the League rejected, but to throw on the President the onus of its rejection.

An unofficial text reached the Senate a month before the Treaty was formally presented and was promptly circulated, discussed, and criticized while the President was engrossed in negotiations at Paris. On June 10 Senator Knox introduced a resolution, modelled on the Round Robin, for disentangling the League from the Treaty. Its defeat led the opposition forces to concentrate upon the second plan of attack, that of formulating unacceptable amendments. Some letters of Elihu Root, giving a careful, juridical analysis of the Covenant and suggesting that it could be improved, were widely circulated as supporting the view that the Covenant was unsatisfactory in regard to Article X and the Monroe Doctrine clause, and ought therefore to be qualified by reservations, if not repudiated. While some misinterpretations of the Covenant were indulged in during this preliminary period, and there was considerable criticism of the President's failure to keep the Senate informed of the progress of events abroad, nevertheless, there were intimations of a desire to withhold judgment until Wilson should present the Treaty officially. The prelude to the great political drama to follow was not auspicious.

The Versailles Treaty was officially presented to the Senate on July 10 and then turned over to the Committee on Foreign Relations for careful consideration and investigation. The Franco-American treaty of guarantee, which by its fourth article was to have been submitted to the Senate simultaneously with the Peace Treaty, was withheld by the President for nineteen days. Wilson was criticized for this action, and when the Franco-American guarantee treaty was referred to the Senate Committee on Foreign Relations, it was not taken up and therefore never reported. The Committee conducted public hearings on the Versailles Treaty

[1] Lodge, *The Senate and the League of Nations,* pp. 147-8.

from July 31 to September 12, and took the statements of about sixty "witnesses," including Secretary Lansing, Bernard M. Baruch, the economic adviser, David Hunter Miller, the legal expert, and William C. Bullitt, a member of the staff. All of the witnesses were American citizens, but many of them came of different national origins and desired to be heard in respect of the clauses of the Treaty affecting these origins.

The testimony of the Secretary of State should have been of first importance, but Mr. Lansing observed an official discretion, in deference to the President's policy, acknowledging at the same time his lack of full acquaintance with developments at Paris.

The Senate Committee requested and had an interview with the President at the White House on August 19. The request was an unusual incident in American treaty-making practice;[2] handled with conciliatory skill, it might have been fruitful of constructive results, of that "accommodation" which Wilson often said was an essential in the conduct of public affairs. But the President was not in an accommodating mood; the stiff and uncompromising spirit of the Covenanters had taken hold of him. The meeting did not have the character of a conference, and did not serve to win Republican support for the League. The President read a prepared memorandum dwelling upon the disadvantages which delay in ratifying the Peace Treaty would cause to trade and to the normal production of the country. He attempted no finesse in discussing the Covenant. "Nothing," he said,

> I am led to believe, stands in the way of the ratification of the Treaty except certain doubts with regard to the meaning and implication of certain articles of the Covenant of the League of Nations, and I must frankly say that I am unable to understand why such doubts should be entertained. . . . There was absolutely no doubt as to the meaning of any one of the resulting provisions of the Covenant in the minds of those who participated in drafting them, and I respectfully submit that there is nothing vague or doubtful in their meaning.

He pointed out that every American suggestion had been incorporated in the Covenant and that Article X was only morally, not

[2] For a discussion of the practice see Section I, Chapter 3.

legally, binding upon the United States. He made his stand unyielding in regard to this article by stating "Article X seems to me to constitute the very backbone of the whole Covenant. Without it the League would be hardly more than an influential debating society." He objected to amending the Covenant because such action would renew discussion all over the world and occasion long delays. He admitted the reasonableness of setting forth definite American interpretations of certain articles, provided that they did not constitute a part of the formal ratification. Altogether his address may well have deepened antagonism to methods which his political opponents considered arbitrary and dictatorial. The discussion which followed touched upon all the live topics of controversy, such as the likelihood of American acquisition of Yap, what was to be the American share in the reparation fund, what had been the government's knowledge, official or unofficial, of the secret treaties, and what was the correct interpretation of the Franco-American treaty. Nothing significant to the understanding of these matters was educed. Interest centered chiefly on the League: the Senators questioned Wilson on the drafting of the Covenant, on the authorship of Article X which Wilson revealed to be his own, on the Commission's interpretation of various articles, and on the President's predictions as to the functioning of the League in hypothetical crises, especially as to how the British Dominions would vote. It became evident that Wilson's distinction between moral and legal obligations in Article X was not satisfactory to most of the Senators, including so fair-minded a supporter of the League as Senator McCumber, who required some insertion in the resolution of ratification to make it clear that the United States had undertaken limited responsibilities. Wilson acceded to the suggestion that Article X be specifically interpreted but maintained his objection to its mention in the resolution of ratification, saying, "We differ, Senator, only as to the form of action." This difference of view in regard to the proper form of action contributed to the ultimate defeat of the Treaty.

Wilson's replies to the Senators' questions left dissatisfaction. He was unable for reasons of international comity to reveal all that had happened at Paris, and was consequently embarrassed

to account for some of the settlements arrived at. Some of the questions did not promote useful discussion; one Senator, for instance, felt prompted to ask: "What provision in the Treaty obligates Germany to prohibit the spread of Bolshevik propaganda from German sources in the United States and allied countries?" There was an obsession for legal exactitude in the very matters which had been purposely made elastic and undefined in order that the League might be free to take shape according to the dictates of the future. All allowance being made for these divergences, a sincere doubt remained in regard to the wisest course of action.

Senate discussion of the Treaty continued during this interlude, becoming more technical and detailed as the information obtained at the hearings was disseminated. On September 15 the Committee on Foreign Relations presented three reports. The majority report contained an attack on the President's "autocratic" methods and proposed forty-five amendments and four reservations, which Wilson was sure to refuse. The minority report advised ratification of the Treaty as it stood, "even if like all human instrumentalities it be not divinely perfect in every detail." Dismissing amendments as unthinkable, it opposed all reservations as designed only to defeat the League by indirection; it pointed out what failure to ratify the Treaty would cost the country, and eulogized the League without any constructive suggestions for adoption or adhesion to it. Senator McCumber presented a separate report, which, in the words of Mr. Learned, is "an impressive tribute to a man able to maintain independence and poise amidst party rancor." He first criticized the majority report for failing to explain the Treaty reported, for substituting irony and sarcasm for argument, for giving more attention to the positions taken by the press or individuals outside the Senate than to the Treaty itself, and for proposing amendments which would isolate us from the rest of the world and make us fail "to consummate the duties for which the war was fought." He described the League as "a mighty step in the right direction." His view was that

> the whole purpose is most noble and worthy. And as in our American Constitution we were compelled, in order to form a more perfect

union, to depend upon the right of amendment, so in this great world constitution experience will undoubtedly necessitate many changes in order to make a more perfect instrument that will work for the benefit of humanity. All of these noble and lofty purposes have been ignored in the majority report or treated with sarcastic disdain or jingoistic contempt.

The McCumber report proposed six reservations. They gave an official American interpretation to the articles concerned with withdrawal, Article X, domestic jurisdiction and the Monroe Doctrine, and recorded the American understanding that all the members of the British Empire would be excluded from voting in case of a dispute involving any one member, and that German rights in Shantung were to be returned to China by Japan when the Treaty was adopted.

At the time that these reports were made Wilson was appealing to the public in a speaking tour of the middle and far west. Before resorting to this last expedient Wilson had exhausted, he believed, every direct means of enlisting Senate support. He had even acceded to the wish of his advisers to invite Senator Lodge to confer with him; the overture was allowed to pass in silence. Then he had sent for at least nineteen of the Republican Senators individually, and had tried to convince them that the Treaty should be accepted as it stood. The White House interviews must have confirmed his opinion that all efforts to influence the Senate directly were futile and that the Treaty was seriously in danger of defeat. His addresses were intended to arouse public opinion to so clear an expression of its will for the principles of peace he advocated, that the Senate would be forced to unity of action with him. Beginning in Columbus, Ohio, on September 4, the President spoke in twenty-eight cities, passing through the northern tier of states to the coast. Senators Borah and Hiram Johnson also made a speaking tour at this time, and followed Wilson's route in order to minimize his influence. The President's tour had little marked or lasting effect on public opinion, except on the Pacific Coast, and it was not enough to exert any appreciable influence upon the Senate. He broke down at Pueblo, Colorado, on September 25, and was hurriedly brought back to Washington where he fell victim, a few days

later, to partial paralysis. For the ensuing five months, the crucial period for the Treaty, Wilson was confined to the White House, deprived of consultations with the Cabinet and with the Democratic leaders of the Senate and of all effective contacts with leaders of opinion and politics; and failing health increased his unwillingness to listen to advice at a moment when the friends of the Covenant believed that moderation, liberality, and even compromise were required.

The reading of the Treaty began on September 15;[3] heat and tumult characterized the ensuing two months' debate. The procedure employed in this instance of discussing the Treaty in open session was novel. In only one or two cases in our history had a treaty ever been discussed except in executive session. Wilson had advocated "open covenants openly arrived at," a statement which he was prompt in modifying as soon as he realized that it was being accepted in too sweeping a sense. The Senate, realizing that the tide of opinion had set in against Wilson, employed his principle of open diplomacy against him. The public discussion of the Treaty revealed to the public for the first time the full consequences of the defects in the Constitution which had many times before led to trouble between the President and the Senate.[4] The Senate's jealousy of the President's constitutional control of foreign relations had long been known to those who were interested in foreign affairs, but it had never before been so fully revealed to the public. A considerable section of the public concluded that the difficulty was due to the personal idiosyncrasies and dictatorial methods of President Wilson. The Senate naturally encouraged a belief that had in it a measure of truth. Five factional groupings stood out: (1), the administration Democrats led by Hitchcock; (2), a small group, composed chiefly of Democrats, who were personally hostile to Wilson and his projects, such men as Reed of Missouri, Hoke Smith of Georgia, and Shields of Ten-

[3] A full and careful narrative of the struggle in the Senate, setting forth the tactics employed, the various alignments, and the results of the numerous votes taken, is given by H. Barrett Learned in Volume VI, chapter V, pp. 391-435, of Temperley's *History of the Peace Conference*. We refer the reader to it for a more comprehensive treatment of the subject.

[4] See Section I, Chapter 3, "Domestic Control."

nessee; (3), the mild reservationists such as Thomas Walsh, Kellogg of Minnesota, and McCumber, who eagerly sought the acceptance of the Treaty with slight alterations in the text; (4), the strict reservationists led by Lodge, a group who tended to merge into (5), the "Irreconcilables" or "Bitter-Enders," whose purpose was the defeat of the Treaty. By October 29 a combination of Democrats and mild reservationists succeeded in defeating all of the fifty amendments proposed by the Foreign Relations Committee. The Senate thus expressed, by substantial majorities, the opinion that the amendment method was out of the question, chiefly because it would require the assent of every signatory to the Treaty and hence the reconvening of the Paris Conference.

Lodge then proposed a list of reservations to take the place of the defeated amendments, following the plan that he and Senator Borah had settled upon in April. After November 7 the struggle turned upon the formulation and adoption of qualifying reservations. They were carried by means of a number of votes from Senators whose avowed purpose was the defeat and not the improvement of the Treaty. This tactic gained favor as the tide of public opinion during the debate was seen to be turning against the President; the reservationists became more uncompromising as they realized the practical possibility of repudiating Wilson's work. The result was the adoption of fourteen reservations, commonly referred to as the "Lodge Reservations," which were designed to release the United States from certain League obligations thought to be peculiarly repugnant to American traditions.

Just before the Treaty with the Lodge reservations attached came to a vote, the League to Enforce Peace called a meeting of its executive committee. Shortly prior to this meeting, Will H. Hays had asked ex-President Taft for a confidential expression of his views on the League, and Mr. Taft had complied with the request by a frank and full exposition in a letter marked "confidential." Excerpts from this letter admitting imperfections in the Covenant were published in the press on the next day in such a way as to stamp Mr. Taft as advocating the modification of the League and thus as favoring the reservations. Notwithstanding Mr. Taft's indignation at this breach of confidence, the letter

served the ends of the Republican party machine, and his name was now used in support of the Republican reservations. The committee of the League to Enforce Peace which met under his presidency just after this incident decided to endorse the Lodge reservations; the committee had been unable to interview Wilson, and it was argued that their action would bring him also to an acceptance of the reservations, on the theory that the reservations did not vitally harm the League of Nations, and that compromise would afford the Treaty its only chance of life at the Senate's hands. Some of the members of the League to Enforce Peace thereupon resigned, expressing the opinion that the reservations were designed to keep the United States out of the League; and that if Wilson were to agree to them the Republicans would add new reservations of such a nature as to preclude his acceptance of them. The Republicans gave some color to this latter view at the last moment before the final vote on the Treaty on March 19, 1920, by adding a reservation demanding recognition of the independence of Ireland.

The morning that the Treaty came to its first vote, November 19, the committee of the League to Enforce Peace drafted a letter, which was read into the Senate record a few hours later, to the effect that although some of the reservations were objectionable and even harmful, they left a Covenant adequate to create an efficient League, that delay was perilous, that "failure to ratify now would defeat the world's hopes for peace now and always," and therefore that the League to Enforce Peace called for "immediate ratification of the Treaty, even with its reservations," but suggesting certain changes in the preamble. It cannot be doubted that this pronouncement made in the name of an organization which contained so many able men and had so long devoted itself to the subject, had a strong influence on the Senate. President Wilson nevertheless expressed an unyielding opposition to the reservations in a letter to Senator Hitchcock, the Democratic leader, which was also read into the record at the instance of Senator Lodge. In the letter Wilson described the Lodge resolution as not providing "for ratification but rather for the nullification of the Treaty" and he said, in closing, "I trust that all true

friends of the Treaty will refuse to support the Lodge resolution." When the Lodge resolution came to a vote it received 39 votes, against 55 cast by the Wilson Democrats and the "bitter-enders." On a vote to reconsider, the Treaty with only five reservations was again rejected, 41 yeas to 50 nays. A second vote on the Lodge resolution failed by a vote of 41 yeas to 51 nays. Then a motion by Senator Underwood for unconditional ratification, as Wilson advocated, far from receiving the necessary two-thirds vote, received only 38 votes, or 15 less than a majority. This defeat represented a division along party lines and conclusively demonstrated the weakness of the President's stand.

The President's message to Congress on December 2 made only one incidental reference to the League. Ratification seemed a dead issue, though on December 13 Senator Underwood, in the middle of a discussion on foreign exchange rates, brought up the subject, contending that the Senate had been mistaken in holding that the Treaty was not still before them for action, and proposing that a resolution empower the President to appoint a conciliatory committee of ten, representing all factions, charged with formulating a compromise whereby the Treaty could be ratified. His resolution, which required unanimous consent, was defeated on the 13th and again on the 20th by the objection of Senator Lodge. At this time Senator Knox failed, because of Senator Hitchcock's objection, to win unanimous consent to a resolution unreservedly advising and consenting to the ratification of the Versailles Treaty in so far only as it provided for the creation of a state of peace between the United States and Germany.

The American public had not stopped discussing the subject, and pro-League newspapers argued that America should join the League even though it might prove in some ways unsatisfactory. The League to Enforce Peace agitated in favor of the adoption of the mild reservations. Public opinion seemed insistent that its representatives at Washington find a way to patch up their quarrel so as to pass the Treaty by compromise if need be. A letter from President Wilson was made public on January 8, 1920, in which he refused to admit finality in the Senate's action, again strongly objecting to reservations as a part of the act of ratifica-

tion because "we cannot rewrite this Treaty," but again expressing a willingness that interpretations accompany the ratification. He suggested as a resolution of the dilemma that the matter be submitted to the voters, by transforming the next presidential election "into the form of a great and solemn referendum."

In the middle of January, Senator Lodge called what was known as the Bi-partisan Conference, on the lines of Senator Underwood's December suggestion, as an apparent effort to bring the two sides to an agreement, though he stated his purpose as being to show that the differences of view "were not verbal but vital and essential." The Conference, composed of five Republican and four Democratic Senators, met daily for two weeks and came to a few tentative agreements but disagreed on all reservations on the Monroe Doctrine, the equality of voting in the League, and most emphatically on Article X. Some reservations prepared by Senator Hitchcock, which President Wilson had declared acceptable to himself, were intended to assuage the apprehensions of many Americans that the bases of development of the United States might be seriously affected by an acceptance of responsibilities under the Covenant unless those responsibilities should be clarified in advance. Those reservations were substantially as follow:

(1) Every member nation is to be sole judge as to whether its obligations, on retirement from the League, have been performed.

(2) No member shall be required to submit to the League any matter which it considers in international law a domestic question or one relating to its internal or coastwise affairs.

(3) Nothing in the League is to be construed as impairing the principle of the Monroe Doctrine or to give the League any jurisdiction with respect to it.

(4) "*That the advice mentioned in Article X of the Covenant of the League which the Council may give to the member nations as to the employment of their naval and military forces is merely advice, which each member is free to accept or reject according to the conscience and judgment of its then existing government,*[5] and in the United States this advice can only be accepted by action of Congress

[5] The italicized phrases correspond to the resolution of the Assembly of the League of Nations of September 25, 1923, interpreting Article X of the Covenant.

at the time in being, Congress alone under the Constitution of the United States having the power to declare war."

(5) In all cases to which any member of the League having self-governing colonies, represented in the Assembly, is a party, or to which any of such colonies is a party, both the member and all its colonies shall be disqualified from voting.

These Hitchcock reservations were rejected by the Republican Senators. Senator Lodge had made up his mind in advance that if the Conference were to break up it should be over Article X.[6] His intention was carried out. The Conference resulted only in inconsequential modifications of the reservations.

A letter from Lord Grey of Fallodon appeared in the London *Times* of January 31, 1920, and was printed in the Senate proceedings at the request of Senator Lodge. It denied that any charge of bad faith could be made against the Senate whatever its action might be, and said that most of the suggested reservations were reasonable except that regarding the independent votes of the British Dominions, and that Europe was so much in need of American coöperation that her requests would not lightly be refused. Lord Grey's opinions gave important encouragement to the reservationists.

On February 10, 1920, Senator Lodge reported the Treaty back to the Senate and there ensued five weeks of debate. Senator Hitchcock made public a letter from the President on March 9 in which he refused for the last time to accede to the Lodge reservation on Article X. Senator Thomas Walsh appealed to his Democratic colleagues to accept the resolution with the reservations, in spite of the President's opposition, on the ground that the Treaty even as modified was better than nothing. The final vote on March 19 was on a resolution of ratification which attached fifteen reservations and understandings. This resolution failed to obtain the necessary two-thirds by seven votes; 28 Republicans and 21 Democrats supported it, and 12 Republican "Irreconcilables" and 23 Wilson Democrats voted for its defeat. The battle of eight months ended with the Senate rejection of the Treaty. On the same day it was resolved to instruct the Secretary of the Senate to

[6] Lodge, *The Senate and the League of Nations*, p. 194.

return the Treaty to the President and to inform him of the Senate failure to consent to ratification.

For this whole fateful series of events history is likely to place the chief blame upon the Constitution, which can appear inflexibly in the rôle of villain as well as that of benefactor. The Senate, which has a limited responsibility to discharge and naturally tends to exaggeration because of its undefined limits, cannot obtain the facts needed for the discharge of its functions. Not represented in the negotiations, it may misinterpret motives, as well as underestimate the need for American concessions. It cannot discuss the great subject of a foreign treaty with those who have determined its policy and negotiated its terms, obtain their exposition and explanation, or bring them into a short-range and close-knit debate. The difficulty does not arise in the check-and-balance feature as it was intended to work, but in a constitutional usage which has brought about a complete separation of the two great departments of government, creating suspicion where there ought to be full understanding and coöperation. The President is not, as in a parliamentary government, chosen by the legislature and responsible to it, and he cannot therefore count on its support. The Senate's attitude toward the management of a great piece of policy-making business whose initiative is with the President, is not determined by the merits of the policy but by its own desire, handicapped and isolated as it thinks itself to be in such matters, to assert its constitutional prerogative. The books are full of instances, and the Senate and its members are the target of endless criticism, but the primary responsibility rests not upon individuals but upon the evolving constitutional system of the United States.

CHAPTER SEVEN

TREATY-MAKING IN THE UNITED STATES AND ELSEWHERE

TREATIES IN THE UNITED STATES SENATE

THE delegates to the convention which drafted the Constitution of the United States faced the task of reconciling their divergent political views and the jealousies of the constituent states and sections in the first instrument of federal republican government in modern times. Their lack of unity of method and governmental experience was counterbalanced by the courage, foresight, and temperance with which they conceived a means for welding thirteen weak and mutually hostile states into a powerful and united nation. Their success has produced a cult of almost biblical faith in the infallibility and perfection of the Constitution, yet the records of the convention show that many of the provisions were the children of chance and happy compromise. The authors had been trained by twenty or more years of enormously responsible activity and of the hardest kind of thinking in the fundamentals of political science. Only men of that stamp could produce an implement fitted to serve a nation which was to expand across a continent, and provide for the political growth of forty-eight states under the unforeseen conditions of the industrial revolution. No constitutional "fundamentalist" can deny the probability that an instrument so created would be likely to contain some troublesome *lacunae*.

The clause in which the political legacy from the thirteen original states was to prove the most embarrassing to their progeny was the one which established the division of the treaty-making function: "The President shall have power, by and with the consent of the Senate, to make treaties, provided two-thirds of the Senators present concur."[1] Recent practice has given this clause the effect of permitting any combination of thirty-three Senators, acting with diverse or discordant motives, to defeat all treaties

[1] Paragraph 2, Section 2, Article II of the Constitution.

negotiated by an administration; or, by modifying them in the process of ratification, to substitute their own judgment for that of the executive, even to the point of nullifying the intention of a treaty.

The Senate was intended to be a privy council[2] with which the President should confer and upon whose approval, interpreting the best judgment of the nation, should depend the final assumption of formal international engagements. When the Constitution was drawn up the size of the proposed Senate made the plan practicable. Yet even in the early history of the government, although the Senate was then a small body and comprised the nation's best-trained statesmen, instances of executive impatience with the conservatism of the Senate's deliberations were many. It is reported that after a conference with the Senate to which he had brought a treaty for discussion, Washington left it in a rage, saying, "I'll be damned if I'll go there again!" Since the early years the President has almost always negotiated treaties without resort to collaboration with the Senate, collaboration which would ordinarily involve both delay and a sacrifice of the secrecy which is advantageous during negotiations. The Senate, however, has gradually converted its neglected consultative prerogative into a negative power which the framers of the Constitution had not envisaged. Instead of a collaboration between the two branches of the government, the treaty-making power has split into two distinct elements. The President has the initiative in diplomatic transaction, but has no voice in the deliberations of the Senate on the results of his negotiations; the Senate has the power to reject treaties presented to it, or unrestrictedly to vitiate their content by making ratification contingent upon amendments or reservations. The fruitful practice of conference, essential to the prompt consummation of foreign undertakings of great magnitude and complexity, has fallen into desuetude.[3]

Thus it appears that the importance of the Senate's share in the conduct of foreign affairs lies not in the approval given by

[2] Following the colonial precedent of the "Governor's Council."

[3] For a more detailed discussion of this theme, see Section I, Chapter 3.

two-thirds of that body, but in the negative power by which a minority of one-third plus one may reject or compel alteration by a majority vote of any treaty negotiated by the State Department. The power exceeds the need for a check on administrative usurpation; the fact that one-third of the Senate are certain of retaining their seats for five or six years, at the same time that another third look forward to a continuance for three or four years, encourages the indulgence of individual caprices and strengthens the intransigence with which the numerous lawyers in the Senate assert their collective self-esteem.

Such a division of powers "not only makes possible but, under certain circumstances, renders inevitable conflict between the executive and the legislative"—to quote Lord Grey—and this conflict has too often resulted in weakness, muddle, and delay, sometimes even in the paralysis of one of the most vital functions of modern government.

THE ADOPTION OF THE COVENANT ELSEWHERE

It is a commonplace that parliamentary governments are spared such a conflict in treaty-making by the fact that their executives remain in office only as long as they enjoy the support of the legislature. The administration may therefore proceed with its negotiations with the assurance that ratification of its treaties will follow as a matter of course as long as its party controls the legislature, a point on which it is not difficult to assure itself. Seldom can a minority mutilate the treaty-making work of the administration while the majority retains power.

Although the formal ratification of Great Britain's international engagements devolves upon the Crown, Parliament has the right to indicate effective assent or dissent by the passage or defeat of the measures when the treaties affect "the law of the land," or of any supply bills that may be necessary. Amendment of treaties is not within the province of Parliament, although the bills by which they are to be put into effect may be amended in minor details. In answer to an inquiry as to whether the House of

Commons had the right to modify the texts of the Versailles Treaty, Bonar Law said:

> I am really surprised that the right honorable gentleman should put the question. Does he really think it possible that any treaty could be arranged in the world if something like twenty Powers are to discuss the details of it? It seems to me quite impossible.

On July 3, 1919, following the signature of the Treaty of Peace and the French security pact, Premier Lloyd George introduced two bills into the House of Commons to enable the King to carry out such measures as he might deem necessary for giving effect to the treaties; on July 21, these bills had a second and third reading, were debated and were passed by a vote of 163 to 4. The debate was in keeping with the magnitude of the issue and was approached on the part of the Opposition in the spirit illustrated by this passage from a speech of Mr. Shaw:

> To vote against the Treaty is a very serious thing, and no thinking man can contemplate it without some degree of hesitation. One desires to recognize the difficulties that have stood in the way of our statesmen, and whilst I personally and my party object strongly to certain things in the Treaty, I doubt very much whether after all we shall vote against it, not because we believe in it intact, but because the greater danger is to refuse it.

In France, where the approval of both chambers was required to empower the President to proclaim ratification, the attacks, which were leveled at Premier Clemenceau personally, or at certain provisions in the Treaty, were not associated with a serious attempt by the large opposition parties to obstruct ratification. Lacking the power to enact reservations, the Chamber of Deputies accepted the text as it stood.

Following a favorable report from the Chamber's Committee on Peace Negotiations, 34 to 1, the debate on the Treaty opened on August 26. It was expected that this would require a considerable delay, but twenty members who had intended to speak agreed to forego participation in the debate in order to expedite final action on ratification. Among the important speeches was that of M. Barthou, who presented the case against the Treaty—

contending that parts of it were obscure and insufficient, criticizing the financial settlement provided, raising the question as to whether France was securely guaranteed against future aggression, and attacking Clemenceau for the manner in which he had negotiated the Treaty without having currently informed the Chamber as to its details and progress. He declared, however, that he would vote for ratification. The other political opponents of the Premier, while voicing their criticisms, pledged their support. After the vote for ratification, the dissenting opinions were put on record by "motions of regret." The only groups whose disapproval was expressed by votes against ratification were the Royalists and a part of the Socialist party, which had split on the issue. The result was ratification of the Treaty by a vote of 372 to 53. The Treaty was then referred to the Senate which, after a short debate, ratified it on October 12. On the following day the President published a decree announcing France's acceptance of the Treaty of Versailles.

Among the thirteen neutral countries invited to adhere to the Covenant of the League of Nations as original members, there were no variations in the manner of ratification of special interest except in the case of Switzerland.

THE CASE OF SWITZERLAND

SWITZERLAND's adherence to the League of Nations is of historical significance as the first case of a "solemn referendum," like the one President Wilson proposed in America, in which a nation consummated the republican ideal of political thinking and passed an educated judgment on a vital question of foreign policy. For the student of American history it is of particular interest as a readjustment of a century-old cardinal policy to meet the requirements of twentieth century international organization. Neutrality meant to Switzerland what the Monroe Doctrine meant to America: the security and independence of the small Helvetian Confederation depended on the agreement of its powerful neighbors neither individually to encroach upon it nor collectively to partition it among themselves. Perpetual neutrality was established for Switzerland by the treaty of 1815. The issue of the

World War, however, brought in a new order of things, and the balance of power, which had assured Swiss independence, was replaced by a combination of nations to prevent war.

Switzerland's peculiar position in Europe and the tri-racial composition of her people have always necessitated a constant but detached interest in international affairs. The developments of the war during 1917 had given the interest of the Swiss in world politics an orientation toward the concept of a League of Nations. The government in 1918 sent Professor Rappard to Washington to confer with President Wilson on the subject of incorporating a system for the prevention of war in the peace settlement. Wilson replied that much as a league was desirable, it was inopportune to contemplate its formation before the belligerents had arrived at a just settlement and before the passions of war had cooled. Assured that the plan would eventually receive the consideration of the Great Powers, Switzerland was content to defer the question and to send semi-official observers to the Paris Peace Conference.

When the Covenant of the League of Nations was, in fact, drafted as a part of the Treaty of Peace negotiated among the belligerents, Switzerland was suddenly confronted with an embodiment of her suggestion, adherence to which would entail a revision of her neutral status. Although Article XXI of the Treaty sustained the validity of previous international agreements intended to preserve peace, such as the American arbitration treaties, as compatible with the Covenant, and although Article 435, which had been framed at the instance of the Swiss delegation to the Peace Conference, confirmed explicitly the treaty of 1815 as coming within this category, Articles X and XVI appeared to require Switzerland, if she should become a member of the League, to abandon a strict neutrality and to coöperate in measures taken against a state violating the terms of the Covenant. Whether to abstain from the League and to enjoy her neutrality, which had thus been reaffirmed and which Italy had joined in recognizing, or to modify her traditional policy by joining the League, became the subject of intense discussion in the Swiss Parliament. The sober consideration of the fundamental principles involved in the

choice was not confused by the discussion of other issues and special interests.

On August 4, 1919, the Federal Council published a message to the Assembly in which it recommended that adherence to the League of Nations be made the subject of a constitutional amendment, in order that it should cease to be a question of treaty-making, in which Parliament was competent, and become subject to the approval of a majority of the people and a majority of the cantons in a national referendum. Attached to the message were annexes amounting to some 400 pages of commentary upon the Covenant, article by article, in which the provisions were discussed in the light of their theoretical meaning, their practical effects and their application to Switzerland. This document was circulated and studied throughout the country. The Swiss Parliament then adjourned until November in order to postpone further action on ratification until the signatories of the Treaty of Versailles should have concluded their ratifications.

When the Swiss Chambers reconvened, the situation had been altered by the fact that of the principal Powers, four had ratified the Treaty of Versailles, while the fifth, the United States, appeared to be likely to delay her decision. Article I of the Covenant of the League of Nations provided that upon the exchange of the ratifications of three Great Powers, the Treaty was to come into effect, and that within two months thereafter the neutral states invited to adhere might become original members of the League. The possible abstention of the United States produced in Switzerland an added hesitation whether she should remain as politically secure within the League as under her guaranteed neutrality. Moreover, it was pointed out that should the Treaty come into effect before the adherence of the fifth Great Power, the Council of the League, to be composed of the representatives of the five Great Powers and of four others, would remain incomplete. Finally, the impossibility of organizing a plebiscite within two months of the impending exchange of ratifications complicated the question of Switzerland's adherence as an original member.

On November 21, 1919, the Federal Assembly passed a resolution of accession to the League, and for submission of the

question of denunciation or withdrawal from the League to a vote of the people and of the cantons as soon as the five Great Powers should have adhered to the League. On December 6, the Federal Council published a memorandum affirming that the Council reserved to itself the right to notify the Secretariat of the League of Switzerland's accession within two months of the coming into force of the Treaty, and that the vote of the Swiss people and the cantons need not take place within this time to secure to Switzerland the advantages of original membership. This declaration was based upon Switzerland's unique constitutional necessity of popular consultation, which, "being in conformity with the spirit of the international *régime* which the League of Nations wishes to inaugurate," should not result, it was felt, in a disadvantage for Switzerland. The memorandum also stated that Switzerland need not submit the question of adherence to a vote until the accession of *all* the states receiving permanent representation upon the Council had established its juridical basis. To this the Supreme Council of Allied and Associated Powers replied that a resolution which placed reservations upon Switzerland's membership could not be considered acceptable under the terms of Article I of the Treaty.

The Covenant came into effect upon the exchange of the ratifications of France, Great Britain, Italy, and Japan on January 10, 1920, on which date, according to the reply of the Supreme Allied Council, began the period of two months during which Switzerland might adhere to the League as original member. On January 13, 1920, the Federal Council published a second memorandum which reiterated the opinion that exception should be made in the case of Switzerland, in view of the fact that the delay was occasioned by the democratic nature of her institutions. Further, it asserted that the neutrality of Switzerland should be recognized, even in the event of the application by the League of Article XVI. On January 30, the Federal Council published a note requesting that these matters—neutrality, and the privilege of declaring accession to the League before the determining plebiscite took place—be put on the agenda of the first meeting in London of the Council of the League. On February 13, the

Council of the League granted both requests, specifying that Switzerland's neutrality and the inviolability of her territory should be respected by members of the League, although she should, as member, coöperate in the event of an economic boycott. Finally, on February 17, 1920, the Federal Council proposed that in view of the concessions made to Switzerland by the Council of the League, the Swiss Assembly should confirm the Federal resolution of adherence by striking out the reference to the five Great Powers.

Then opened in Switzerland a thorough and comprehensive campaign to prepare the voters for the plebiscite to ratify Switzerland's adherence. The foundation of the hostility to the League entertained by a large part of the population is summed up by Professor Rappard:

> The concern for neutrality, principle of passivity and isolation, produced a distrust and hostility towards the League of Nations founded on the opposite principle of collaboration and solidarity. This mistrust and this hostility were all the stronger because the League of Nations owed its birth to a world war from which neutrality itself had allowed Switzerland to escape, and because, conceived to assure peace, the League remained closed to those against whom the peace was made and because, though destined to initiate a *régime* of justice and of international liberty, the League derived its origin from a Treaty judged iniquitous by the major part of Swiss opinion.[4]

Despite the reaffirmation of Switzerland's neutrality by the League Council, there was bitter controversy on the point that integral neutrality was in certain possible contingencies obviously irreconcilable with Switzerland's participation in the functioning of a League of Nations. Another doubt which advocates of abstention suggested was the effect on Switzerland's political life of the proposal to make Geneva the seat of the League; this was called a Trojan horse. Naturally, the German-speaking cantons, although primarily devoted to patriotic allegiance to Switzerland, came under anti-League influences of German origin, while the French

[4] *L'Entrée de la Suisse dans la Société des Nations*, p. 2. Geneva, 1924.

and Italian minorities were affected by the favorable comment published in their languages.

The vote was taken on May 16, 1920, the result being a favorable vote of 416,870 voices and 12½ cantons, as against 328,719 voices and 11½ cantons. This result came from overwhelming affirmative majorities in the French and Italian cantons and among the agricultural population, opposed to less decisive majorities for the negative in the German cantons and among the industrial population.

CHAPTER EIGHT

THE PRESIDENTIAL ELECTION OF 1920

A HISTORIAN says of the landslide victory of the British Whigs in 1840: "It was a heterogeneous party composed of diverse and conflicting elements. Its only bond of union was a common desire to gain political power." Something of the sort was true of the Republican victory of 1920, with this distinction: the Whigs offered no platform; the Republicans of 1920 offered a platform whose vagueness in the field of foreign policy was designed to capture men of opposite opinions, while the control of the party was in the hands of a group who were indifferent to interpretation of the platform.

In the senatorial election of 1918, the vital question at stake was the determination of the nation's external policy at the approaching close of the war. The election was contested, however, on local issues, social and economic, and the Democratic party lost the psychological moment at which public sentiment was susceptible of being turned toward the conception of a system to preserve peace in the world. In 1920 the country had returned to its internal economic preoccupations. The people were apathetic toward international questions and exasperated at the long-drawn-out bickerings which had brought the settlement of peace to an inconclusive deadlock. "Normalcy" and emergence from post-war economic crises were uppermost in the national mind. In accordance with such impressions and circumstances the two parties made up their electoral platforms.

In their reviews of the past years, the party platforms were equal in recrimination; in their programs for the future they both promised "Peace, Progress, Prosperity," to quote the Democratic slogan. They might have been written by the same hand but for their divergence on the subject of foreign policy: the Democrats unequivocally pledged themselves to ratification of the Treaty of Versailles, admitting only such reservations as should be found necessary to define America's obligations under the League Covenant in terms of the limitations her Constitution re-

quired; the Republicans drafted a plank which under one interpretation could be accepted by the voters who favored the League of Nations, and under another would appeal to those strenuously opposed to participation in the League. The League, the only issue of the platforms, had been already relegated to a secondary place in the nation's political consciousness, and contradictions could pass unnoticed.

The Democratic campaign embodied a position clearly defined and consistently maintained; the nominations were made with deference to the expediency of choosing a candidate not too closely associated with the Wilson administration and of making a bid for the votes of the remnants of the Roosevelt "Progressives." Governor Cox was chosen because he was a pronounced "wet," an Ohioan, and a keen politician who had not been overprominent in Washington affairs; Franklin D. Roosevelt was made vice-presidential nominee to attract the support of the Republican liberals. The League plank and its interpretation during the campaign may best be summarized in the following excerpts from the platform and from the speeches of Governor Cox:

> We promise you this, that after March 4, 1921, with the least amount of conversation possible, we will enter the League of Nations of the world. . . . We advocate the immediate ratification of the Treaty without reservations which would impair its essential integrity; but do not oppose the acceptance of any reservations making clearer or more specific the obligations of the United States to the League associates.

Governor Cox suggested the following reservations as examples:

> In giving assent to this Treaty, the Senate has in mind the fact that the League of Nations which it embodies was devised for the sole purpose of maintaining peace and comity among the nations of the earth and preventing the recurrence of such destructive conflicts as that through which the world has just passed. The coöperation of the United States with the League and its continuance as a member thereof will naturally depend upon the adherence of the League to that fundamental purpose. . . . The President has repeatedly declared, and this Convention reaffirms, that all our duties and obligations as a member of the League must be fulfilled in strict conformity

with the Constitution of the United States, embodied in which is the fundamental requirement of declaratory action by Congress before this nation may become participant in any war.

In answer to the Republican charge that the President demanded that the Treaty be ratified without any modification, the Democrats pointed out that the President had declared that the comprehensive Hitchcock reservations were acceptable.

The Republicans solved the dilemma presented by the conflict between the "irreconcilables" headed by Johnson, Borah, and McCormick and the pro-Leaguers such as Taft, Root, and Hughes, by nominating a candidate, Senator Harding, with no opinions, and by adopting the following plank unfriendly to the League in implication but announcing coöperative principles:

> The Covenant . . . ignored the universal sentiments of America for generations past in favor of international law and arbitration, and it rested the hope of the future upon mere expediency and negotiation. . . . The Republican party stands for agreement among the nations to preserve the peace of the world. We believe that such an international association must be based upon international justice, and must provide methods which shall maintain the rule of public right by the development of law and the decision of impartial courts, and which shall secure instant and general international conference whenever peace shall be threatened by political action so that the nations pledged to do and insist upon whatever is just and fair may exercise their influence and power for the prevention of war. We believe that all this can be done without the compromise of national independence, without depriving the people of the United States in advance of the right to determine for themselves what is just and fair when the occasion arises, and without involving them as participants and not as peace-makers in a multitude of quarrels, the merits of which they are unable to judge.

This declaration was used by the Republicans in three ways: Senator Harding fluctuated between suggesting that he favored ratification of the Treaty of Versailles, suitably amended, and a categorical rejection of the Covenant as the basis for the proposed "association of nations"; the pro-League Republicans insisted that the election of Harding would constitute the surest means to

obtain ratification of the Treaty; the Republican press in the main deprecated Harding's anti-League pronouncements and apologized for his evasions as being political necessities.

Harding's speeches contained something to appeal to either camp. Starting with the "knowledge" that the League was impotent as a preventive of wars, at one time he gave the League a chance:

> If in the failed League of Versailles there can be found machinery which the Tribunal (similar to that at The Hague) can use properly and advantageously, by all means let it be appropriated. I would even go further. I would take and combine all that is good and excise all that is bad from both associations. This statement is broad enough to include the suggestion that if the League which has heretofore riveted our considerations and apprehensions has been so intertwined and interwoven into the peace of Europe that its good must be preserved in order to establish peace on the Continent, then it can be amended or revised so that we may still have a remnant of world aspirations in 1918 builded into the world's highest conception of useful coöperation.

At another time he did not

> want to clarify those obligations. I want to turn my back on them. It is not interpretation but rejection I am seeking. . . . Our opponents are persistently curious to know whether, if I am elected, I intend to scrap the League. It might be sufficient in reply to suggest the futility of scrapping something which is already scrapped. . . . The Paris League has been scrapped by its chief architect.

Then he became a supporter of the League idea. He declared in an open letter to the people that the election of Cox would mean the constitution of a blockade against the League of Nations in its present form, and stated that the best hope of those who desired America to adopt a generous and humane policy lay in his own election. "I am talking about the League as an international political body on the one hand," he said in September, "and proposing a rational substitute for it, or an amended form of it which may reasonably undertake all that is now said the League intends to do." He had no desire to fling aside the good in the Covenant

of the League of Nations, and possibly the League as negotiated was as good as could be expected in view of the manner and haste in which the work had been done. He even publicly approved a letter in which Mr. Hoover declared that parts of the Treaty were so intertwined with the stability of Europe and so necessary to the rehabilitation of Europe that it must be the foundation upon which a new organization was to be built.

Though Harding termed the League "a failure and weak beyond the possibility of repair" and Senator Lodge called it a "battered hulk," they were not left in doubt as to the existence of the League and the progress of its organization. In August, Elihu Root, who was in Europe, preparing as an adjunct to the League the statute for a court of arbitration such as Harding proposed as desirable, sent Harding a confidential cable:

> It is unwise to declare the League dead . . . it would not be true. The League has hardly begun to function because the terms of peace have not yet been enforced by the victorious nations. Polish questions [mentioned by Harding as illustrating the impotence of the League], for example, are properly handled by the foreign offices without any reference to League. They are not League's business. In my opinion a new deal here from the beginning by abandoning the Treaty of Versailles is impossible. To attempt it would bring chaos and an entire loss of the results of the war and general disaster involving the United States. The only possible course is to meet requirements of League reservations and the Chicago platform in some other respects.[1]

Throughout the campaign Mr. Taft asserted the belief that Harding's election would hasten America's entry into the League, amended in such a way as to remove the objections he opposed to it. His argument was that among the two-thirds of the Senate who held over were "the Republican Senators who will have the power, and will reject Article X and defeat the Treaty." A Republican President, he argued, would save the Treaty by compromising with these Senators of his own party, while a Democratic President, even though the country had pronounced unmistakably in his favor, would be met by senatorial recalcitrance.

[1] *New York Times*, Nov. 9, 1920.

Less than three weeks before Harding's statement on November 4, 1920, that the League was dead, a number of influential Republicans, who came to be known as the "Thirty-one," sincere friends of the League as founded, addressed an appeal to the voters to support Harding in the election, assuring them that the Republicans would enter the League duly modified to meet all requirements, and concluding with the following passage:

> The conditions of Europe make it essential that the stability made between European Powers shall not be lost by them, and that the necessary changes be made in changing the terms of that Treaty rather than by beginning entirely anew. . . .

The Republican press was thrown into confusion by the nomination of Harding and the subsequent course of his campaign. Several important papers simultaneously printed mutually contradictory interpretations of a Harding speech. The pro-League *New York Tribune* excused him for his lack of clarity by pointing to the importance of the Hiram Johnson group which threatened to "bolt the party" if it took a pro-League stand; "it seemed intolerably unwise to make pledges too specific," and "it would be narrow to make any particular attitude towards the Covenant a test of party fealty." The *Denver News* remarked that "Harding must assume the rôle of apologist" because he is "bound to look at certain questions from the senatorial point of view and thereby cloud his vision." Several papers suggested that although Harding had to propose adherence to *a* league rather than *the* League, economic necessities would make the ratification of the Covenant a political necessity. The *New York Evening Post* stated editorially that the Republicans relied upon generous hypodermic infusions of Root to keep alive their "stand-pat" candidate until election day, to which the pro-League *Minneapolis Tribune* retorted that "under Root's direction and subject to his counsel the Republican party will hammer out a clean-cut foreign policy, retaining the good and replacing the bad in the present organization."

After the election the optimism of the *New York Tribune* increased: "The campaign being over," it said,

there is no longer a pressing partisan motive for misrepresenting the Republican position. It will soon be recognized that this position is utterly at variance with the aims of Borah and Johnson and the assertions of Governor Cox. With an increased Republican majority in the Senate, the prospects of entering some kind of a league are greatly improved.

The Republican *Public Ledger* of Philadelphia saw a responsibility resting upon its party:

Wilson's strategy prevented our entry into the League. That was not its purpose but that was what it accomplished. But most Republicans favor a league of some sort: and they must now display the constructive ability to find such a League and put the Nation into it. They must not fail where Wilson failed. They must not permit the "bitter-enders" to defeat them as they defeated Wilson, now that the tidal wave of Republican popularity has inundated the Senate Chamber.

All ambiguities in Harding's mind ceased after his election. Eleven days before the first meeting of the Assembly he said: "You just didn't want a surrender of the United States of America; you wanted America to go on under American ideals. That's why you didn't care for the League which is now deceased." He knew that he had given "pledges" which had escaped the attention of "the Thirty-one," for he said later to the *Associated Press:*

In compliance with its pledges the new Administration which came into power in March, 1921, definitely and decisively put aside all thoughts of entering the League of Nations. It doesn't propose to enter now, by the side door, back door, or cellar door.

Of the various attempts made to explain the Republican avalanche of 1920, Walter Lippmann best conveys the public confusion:[2]

The Republican majority was composed of men and women who thought a Republican victory would kill the League, plus those who thought it was the most practical way to procure the League, plus those who thought it the surest way offered to obtain an amended League. All these voters were inextricably entangled with their own

[2] *Public Opinion,* pp. 195-6.

desire or the desire of the other voters to improve business, or put Labor in its place, or to punish the Democrats for going to war, or to punish them for not having gone sooner, or to get rid of Mr. Burleson, or to improve the price of wheat, or to lower taxes, or to stop Mr. Daniels from outbuilding the world, or to help Mr. Harding to do the same thing.

CHAPTER NINE

THE HARDING AND COOLIDGE ADMINISTRATIONS AND THE LEAGUE

THE new administration under President Harding, with Mr. Hughes as Secretary of State, found itself in a world which was trying to organize international relations. Most of the important nations with which it was necessary to deal in matters of foreign policy were members of the League of Nations. It was necessary for the American Government to formulate a policy or at least to assume an attitude toward the new institution at Geneva.

The situation was unprecedented, and the Secretary of State naturally hesitated to commit the country to an official policy. Mr. Hughes's replies to the accusations of inaction and discourtesy in correspondence with the League and its officials suggest the perplexities which he must have felt when first charged with this responsibility. "Of course," he said, "whatever your wishes may be, the fact is that the United States is not a member of the League and I have no authority to act as if it were." It was only with caution and in the course of a number of years that the American Government established a policy; the process was an evolution which is by no means finished.

At first it was necessary to make a guess as to whether or not the new institution would survive. Doubt as to the viability of the League was not confined to this country. The League had been established largely because of the insistence of the American delegation at the Peace Conference in Paris, and it appeared to all at that time that the United States was a necessary stone in the arch. Many important people in Europe, including those who were most anxious for the League's success, believed that its chance of life was greatly reduced by the abstention of the United States.

Hughes was personally favorable to the League, but in the case of those in control of the Republican party machine, hostile to the League because Wilson had been instrumental in its crea-

tion, the wish that the League would quickly dissolve was father to the thought. Public opinion on both sides of the Atlantic was at this time petty, irritable, and contentious, and in 1924 Mr. Root gave the following account of it. "Unfortunately," he said,

> the controversy which resulted in our determining not to enter the League was violent, and bitter feelings were aroused. Those feelings came to be carried over to the League itself; and it came to be a common thing that we could read in newspapers and hear in speeches and in conversation expressions of expectation that the League would fail, and evident pleasure when it seemed that it might fail. Reprisals began to come from the other side—disagreeable things were said upon the other side, and a period of pin pricks has proceeded for years.

Added to this ill will was the fear on the part of the administration that the United States might be drawn into the League unwittingly. This fear was aggravated by the confident assertions of some friends of the League that international society was so close-knit that the United States would inevitably be forced to adopt League membership. For a complex of reasons, the State Department, which acknowledged the importance of the Conference of Ambassadors and the Reparation Commission, turned a cold shoulder to the League. Indeed, at first, the State Department expressed, by way of the American Ambassador in London, its unwillingness so much as to receive communications from the Secretary General of the League, making no exception of those dealing with non-political welfare matters. When communications did arrive, the delay in acknowledgment or answer was so considerable that public attention was drawn to the matter. It was then discovered that the letters had been filed by a clerk in the Department and had never been brought to the attention of the Secretary.[1] On September 22, 1921, more than six months after the administration had taken office, the Secretary General of the League received the first reply, and thereafter communication

[1] An article by Raymond B. Fosdick in the *New York Times* of October 19, 1924, contains a criticism of Secretary Hughes on this account. Mr. Hughes replied to it in an address in Baltimore on October 23, 1924, printed in the *New York Times* next morning.

was prompt and regular. The form was more or less the one adopted with unrecognized governments with which nevertheless communication has to be kept up, for the letters were in the third person, they were unsigned, and they were sent to the United States legation in Berne or to the Consul at Geneva for delivery.

So convinced was the new administration that the League was, if not dead, at least dying, that it was unwilling to take cognizance of the organized health work at Geneva. The *Office International d'Hygiène Publique* in Paris had been created by a convention signed at Rome in 1907 by several governments. This had been at the time a progressive step in international health organization, but in seven years of experience before the outbreak of the war its limitations had been exposed, in a lack of funds and even more in the inevitable red tape which resulted from trying to carry on technical health work through the machinery of foreign offices. The problem of international health was particularly urgent as part of the disorganization caused by the war and because of the widespread danger of epidemics. In June, 1919, this office voted to be placed under the direction of the League. An effort was therefore made at Geneva to organize international health work on a more efficient basis through a Health Committee of the League of Nations and a Health Section in the Secretariat; important American medical men connected with Red Cross work in Europe and the League of Red Cross Societies were influential in creating this new organization. The American Government, however, refused to recognize its existence and impeded its progress by continuing to support the old Office International at Paris, which all the other nations were prepared to abandon; and when the Office was invited to send representatives to sit on the League's General Committee to supervise health work it found itself obliged to decline the invitation on the ground that the United States was unwilling that any international organization on which she was represented should in any way be attached to the League.

The new administration gave a similar illustration of its first attitude toward the League in its policy in regard to the international control of opium; it attempted to block the consideration of the opium problem by the League of Nations. The United

States was interested in this matter on account of the consumption in the United States itself of narcotics derived from opium, and also because of possession of the Philippines; and, after continued public agitation, had taken part in an international conference held at Shanghai in 1904, followed by another at The Hague in 1912. At the second conference The Hague Opium Convention was drawn up and offered for signature. In the two years between the drafting of this convention and the outbreak of the war, the attempt to secure sufficient ratifications to make it of real importance in international life had produced discouraging results, and the outbreak of war made further effort practically impossible. There had been no sufficient period of operation to permit judgment on the effectiveness of this treaty. In many ways it met the principal wishes of the American Government; a number of important nations had not ratified it, however, and there were certain weaknesses in the drafting, notably in a clause which has caused bitter dispute, pledging the various governments to the "gradual and effective" suppression of the evil. As each nation was left free to determine for itself what measures were "effective," and what rate of speed was implied by the word "gradual," the door was open to conflicting interpretations.

During the drafting of the Treaty of Versailles, and largely because of the initiative of Americans who were deeply interested in this problem, Clause 295 was inserted to make every signatory of the Treaty of Versailles *ipso facto* a signatory of The Hague Opium Convention. The intent of this move was laudable, but its effect was that a great many countries, which found it to their interest to sign the Treaty of Versailles, found it necessary in so doing to accept the treaty in regard to opium which they had either not properly studied or had refused to ratify. The number of signatories to The Hague convention was by this means greatly increased, but many of the new adherents accepted The Hague obligations reluctantly, and some opium-producing states such as Persia and Turkey, as well as some states which were neutral during the war, have not ratified the convention.

Article XXIII of the Covenant of the League of Nations provides that the members of the League "will entrust the League with

the general supervision over the execution of agreements with regard to the traffic in women and children and the traffic in opium and other dangerous drugs." Even if this article had not been written into the Covenant, it is probable that the nations interested in the control of the traffic in dangerous drugs would have felt that the only way to give effective life to The Hague convention would be to put its administration in the hands of the League. The American Government, however, refused to recognize the new circumstances, and insisted that the administration of The Hague convention should be left in the hands of the Dutch Government. As the Department of State would not correspond with Geneva on the subject of opium, the League of Nations, when it desired information on this subject from the American Government, requested the Dutch Government to obtain it; on instructions from his government, the Dutch Minister would then call at the Department of State and inform the Secretary of State that "a third party" desired certain information, and in due course the Secretary of State would notify the Dutch Minister in Washington that the American Government had no objection to his informing the unnamed third party that such and such were the facts. In answer to criticisms of this procedure, the Department of State said that it was impossible to alter The Hague convention and to accept the new arrangement without submission of a new treaty to the Senate and ratification of it by that body. As the attitude of the government has changed, the Department has found it possible to coöperate with the League in regard to drug control to the extent of sending to Geneva delegations of an official and weighty character, in spite of the reasons which during this first period seemed to present insuperable obstacles.

In a similar way the new administration discouraged American assistance in the organization of the Permanent Court of International Justice at The Hague. The organization of this Court was one of the first enterprises of the League of Nations, and Mr. Root, while the Wilson administration was still in power, had with the approval of the government accepted a position on the committee which drew up the statute for the new Court. In this statute it was provided, at Mr. Root's suggestion, that the members of the

Court should be elected by the Assembly and the Council of the League from lists of nominees made by the judges of the existing Court of Arbitration at The Hague. The American members of The Hague Tribunal who had the right to nominate candidates for the new Court were Elihu Root, Oscar Straus, John Bassett Moore, and George Gray. When the statute of the new Court had been accepted by the League of Nations, it was decided to hold the first election on September 14, 1921. On June 4 of that year the Secretary General of the League sent a letter to each of these four American citizens asking them to make nominations and, as diplomatic usage prescribed, addressed these letters care of the Secretary of State, with the request that they should be dispatched to the persons for whom they were intended. The letters were not delivered to the persons to whom they were addressed, and they would not have known of their existence except for newspaper reports. When the Secretary General at Geneva learned that these letters had not been delivered, he cabled under date of August 13 direct to Messrs. Root, Straus, Moore, and Gray; inquiry was thereupon made at the State Department for the original letters and they were found and forwarded. The four Hague panel-members met in New York City on September 7, only seven days before the date for the election. They decided on nominations but agreed that, before forwarding them to Geneva, Mr. Root should confer with Secretary Hughes as a matter of courtesy. Mr. Hughes pointed out that these American judges had been appointed under The Hague Convention of 1907 and that they were asked to take action under another treaty to which the United States was not a party. Mr. Root thereupon notified his three associates of the legal obstacle to any action by them, and the four accordingly sent a joint cablegram to the Secretary General in which they stated that they had reluctantly reached the conclusion that they could not make the nominations requested. When the election was held in Geneva, the American jurist, John Bassett Moore, was elected to the new Court.

The Harding administration at first also assumed a distrustful attitude in regard to the help which might be given by private American citizens to the League; for example, it dissuaded Mr.

Cameron Forbes, former Governor of the Philippines, from accepting a post on the Mandate Commission.

This attitude, based on the belief that the League would not long survive, became untenable. Aside from the question whether or not the people of the United States wished to join the League of Nations, it became evident that they could only benefit by cooperation with the rest of civilization in an effort to organize the world's humanitarian activities. They could not ignore their interest in the post-war reorganization of the economic system, nor could they be content with a negative attitude toward the preservation of peace.

Washington accordingly adopted the practice of sending "unofficial observers" to sit with the League committees dealing with non-political matters. The first appointment of this character was that given Miss Grace Abbott, Chief of the Children's Bureau, Department of Labor, on October 13, 1922, "to coöperate in an unofficial and consultative capacity" with the League's Advisory Committee on the Traffic in Women and Children. Dr. Marion Dorsett was appointed shortly afterward as "unofficial observer" on the Anthrax Committee, which functioned under the International Labor Organization, and in the following month, Dr. Rupert Blue was similarly appointed to attend the fourth meeting of the Advisory Committee on the Traffic in Opium.

During this second stage of America's relationship with the League, the covert hostility toward its control of health work gave place to a reluctant coöperation. When the death of Mr. Barboza, the Brazilian member of the World Court, made necessary a new election to fill the vacancy, it was not again suggested that nomination by the American members of The Hague tribunal[2] would be an international solecism. Furthermore, the three-cornered channel of communication between Washington and Geneva *via* The Hague in regard to opium gradually gave place to direct correspondence. In this second stage, the attitude of the State Department can be summed up in the phrase "The League may be useful to Europe, but it is no concern of ours." This new atti-

[2] An account of the relation of the United States to the Permanent Court will be given in the Survey of 1929.

tude found expression in several presidential messages. On February 2, 1923, President Harding in a special message to the Senate said:

> I have no unseemly comment to offer on the League. If it is serving the Old World helpfully, more power to it. But it is not for us. The Senate has so declared, the executive has so declared, the people have so declared. Nothing could be more decisively stamped with finality.

In his first annual message to Congress on December 6, 1923, President Coolidge stated:

> Our country has definitely refused to adopt and ratify the covenant of the League of Nations. . . . I am not proposing any change in its policy; neither is the Senate. The incident, so far as we are concerned, is closed. The League exists as a foreign agency. . . .

The indifference or aloofness connoted by these observations could not be long maintained. In 1923 the United States was invited to participate in a League conference on customs formalities. A refusal was sent on the ground that the government could not "make the customs formalities of the United States the subject of an international convention," or lay the customs regulations of the United States before the conference, but when the government came to understand what was to be considered, it asked leave to be represented and sent four experts from different departments.

A similar change of American policy is seen in regard to the matter of double taxation, a problem of particular interest to American business. The problem was first commented upon in a report of the Department of Commerce; it was then discussed by the American Chamber of Commerce and by it laid before the International Chamber of Commerce. As it was obviously a governmental matter, the International Chamber referred it to the League of Nations. The American Government refused the first invitation to participate, but its point of view has so changed that it now participates fully in this work of the League.

When the American Government was asked to nominate a delegation of experts for the International Economic Conference of

1927, it accepted the invitation and sent an able and impressive delegation, for which Congress appropriated funds; in fact, during 1927 the American Government accepted every invitation from the League, with the exception of one to appoint a representative to the Security Committee, to which reference will be made later.

This evolution from one attitude to another is summarized in the relations of the United States to the League's effort to deal with armaments. The first attempt was to control the international private trade in arms. During the Peace Conference in 1919, a treaty on this subject was signed at St. Germain; with the other group of treaties drafted at that time, it was signed by the American delegates, but like the other similar treaties, was never ratified by the United States. The control of private trade in arms presents a problem in which other countries can make no progress without the coöperation of the United States; it is not at all likely that the other countries will sign a self-denying ordinance which would turn over all the profits of this industry to American munition manufacturers.

On March 8, 1921, the Secretary General of the League sent a letter to the American Government in the name of the Council, asking whether the United States was prepared to ratify this convention and asking for an early reply; no reply was received from the Secretary of State. On November 21, 1921, the Secretary General again addressed the same question to the Secretary of State and again there was no reply. On June 3, 1922, the Secretary General renewed the request. On July 28, the Secretary replied, saying that the American Government would not ratify the convention of St. Germain because of its disapproval of the terms of the convention, and because of the laws of Congress (cited in the letter) against the export of arms "in times of domestic violence" to American countries and to countries in which the United States exercised extraterritorial jurisdiction. At about the same time the Secretary of State sent a note to the British chargé in Washington who had made personal inquiry regarding the American delay, explaining in some detail why the American Government could not accept this treaty, and giving among other reasons the

fact that the convention was "intertwined" with the League of Nations.

The refusal of the American Government, representing one of the world's largest munition-manufacturing nations, to ratify this convention was, of course, a disappointment to Geneva. The matter was discussed at the Assembly of the League in September, 1922, and the Council was instructed to inquire the nature of the American objections to the proposed treaty, and to find out if the American Government were prepared to make any counter-proposals. On May 3, 1923, the President of the Council of the League addressed a letter to Secretary Hughes asking "whether the government of the United States would be disposed to state its views as to the manner in which it would be willing to coöperate with other governments in the control of the traffic in arms and the private manufacture of arms." Under date of September 12, 1923, Secretary Hughes sent a reply to the Council stating much the same reasons as formerly why the American Government could not adhere to the proposed treaty and making no suggestions for coöperation on a different basis.

It was evident that the League could make no progress in this matter without the coöperation of the United States, and the Council invited the United States to appoint representatives to sit on a temporary mixed commission to draft a new convention for the control of traffic in arms. It was hoped that by this means the American Government would coöperate in drafting a treaty which would be free from the objections it had found in the treaty of St. Germain. The American Minister at Berne, Mr. Grew, was instructed to attend the meeting; in a statement he made at the first session, he said:

> I have been instructed to attend the meetings of this Commission, in accordance with the invitation extended to my government in December last, for the purpose of being fully advised as to any proposals that may be made, and particularly to receive information respecting any draft convention which may be considered by the Commission.

From this negative beginning participation became more open

and official. The Temporary Mixed Commission succeeded in drafting a new treaty on the traffic in arms, avoiding the points which Mr. Hughes had listed as impediments to American adhesion, and the American Government sent a formal delegation headed by Representative Burton to a diplomatic conference called in 1925 to consider this draft convention. The American delegates took an active part in the discussion at this conference, the draft treaty was amended in certain details to meet their approval, and they signed the resulting treaty. A separate convention regarding the control of poison gas was drawn up at the instigation of the American delegation. These were the first treaties negotiated under League auspices to receive American signature. They were referred to the Senate by the administration, but by the end of 1927 they had not yet been reported out for discussion.

Though the problem of controlling the traffic in arms is still unsettled, these discussions broke the ice as far as the American Government was concerned, and it has fully participated in other work of the League of Nations in regard to disarmament. A strong official delegation was sent to the Preparatory Commission for a general disarmament conference, which held frequent meetings through 1926 and 1927.

Reference has been made to the fact that while accepting almost every invitation received from the League in the course of 1927 for conferences on humanitarian, technical, economic, and armament conferences, the American Government refused to allow its representative to sit on the Security Committee, created by the Assembly of 1927 to work in conjunction with the Preparatory Commission for a general disarmament conference. In so doing, the Washington Government emphasized its belief in the possibility of separating questions of a purely political nature from other international interests. While prepared to coöperate with the League of Nations in most of its activities, the American Government still maintains its attempt to refuse any participation in world politics.

Whether or not the use of this word "politics" by the American Government is more correct than the usage of the rest of the world

is an academic question. Politics in the modern sense is so inextricably intertwined with economics that it may be questioned whether any problems are either purely political or purely economic. Someone has said that a question becomes "political" whenever enough persons are interested in it to make it worth while for politicians to give it their attention. An example of the relation of economics to politics is furnished in the mitigation of the reparations dispute by the Dawes Committee. Secretary Hughes made a proposal in a speech at New Haven, December 29, 1922, that an attempt should be made to solve the problem in the manner afterward called the Dawes Plan. He was explicit in saying that the United States could properly play a rôle in this affair because it was a purely economic and not at all a political question. To the European countries directly involved in this reparations tangle, the economic aspects of the problem had been discussed *ad nauseam;* with them it had become a political problem of persuading the various governments to accept the dictates of common sense.

CHAPTER TEN

THE DEVELOPMENT OF THE LEAGUE OF NATIONS

WHILE American policy toward the League was undergoing the modifications just mentioned, the League was beginning to develop the integrity of an enduring political institution. That development has not corresponded in all respects to the predictions of Wilson; still less has it flattered those of his enemies. American collaboration with the League, its secretariat, its committees and commissions, has not proved contaminating or "entangling," and what was at first but a grudging experiment is now approved and even encouraged. The basic observation in Lecky's *History of Rationalism in Europe* is that the great issue between science and superstition, between enlightenment and theological dogma, was never decided by public opinion on the heels of a clean-cut debate by the leading antagonists. "It has been observed," he wrote, "that the success of any opinion depended much less upon the force of its arguments, or upon the ability of its advocates, than upon the predisposition of society to receive it. . . . Definite arguments are the symptoms and pretexts, but seldom the cause of the change. Their chief merit is to accelerate the inevitable crisis." By the time a new thought had been accepted, it had happened so gradually and persuasively that no man knew whence or how. American opinion toward the League is undergoing this change.

The view prevalent in 1921 that the League would not live and that it was indeed already moribund, was not shared by the bankers and the investing public, for American banking houses began to make loans, beginning with $25,000,000 to Austria in 1923 and $7,500,000 to Hungary in 1924, and to other countries whose chance of survival were doubtful but for the League, or whose economic security would be so slender but for the League and the supervision of its Financial Committee as to stamp the loans with a dubious value.

One view of the League generally prevailing at its birth was

that if it lived it would exercise all the functions and powers provided by the document which gave it life. There were plenty of American lawyers to argue the meaning of Covenant phrases; there were fewer statesmen to grasp the essence of a new political organism, and to foresee the slow and certain coalition of world forces in disregard of words. The lawyers were blind to the evolution of their own Constitution—its eighteen amendments, its extra-constitutional practices, the atrophy of those parts which have not corresponded to living forces, and its "understandings," more powerful often than the text itself. Wilson had "particularly emphasized the importance of relying on experience to guide subsequent action."[1] The course the League has taken in its first eight years is more important than the terms of the Covenant.

One of the 1919 predictions was that the League would become an organ for the imposition of the majority will by the use of force. This was perhaps due partly to the fact that the League to Enforce Peace had prepared the public mind for a League endowed with large police powers and partly to the implications in Wilson's insistence upon the importance of Article X. The ambiguity of Article X permitted a wide variety of interpretations, which were a source of controversy in Europe as well as in America. League members confessed that they had no definite understanding of the obligation contained in it. The history of its changing interpretation in the League has shown that no matter what coercive powers are written into the Covenant, force cannot be employed before the world is willing to be coerced, and that under the unanimity rule Article X cannot be a menace to the independence and sovereignty of states.

During the first four years the Assembly debated various suggestions regarding this article. On December 4, 1920, Canada made a motion that Article X be struck out; the Assembly deferred its final judgment. On September 25, 1923, an interpretive resolution, adopted by a majority vote, stipulated: first, that "the Council shall be bound to take account, when recommending the application of military measures in the event of aggression or

[1] Isaiah Bowman's notes on Wilson's talk to a dozen members of the Inquiry, Dec. 10, 1918, on the trip to Europe: *cf.* Miller, *The Drafting of the Covenant*, p. 42.

threat of it, more particularly, of the geographical situation and of the special conditions of each State"; second, that "it is for the constitutional authorities of each Member to decide, in what degree the Member is bound to assure the execution" of its obligation by Article X "by employment of its military forces"; and third, that "the recommendation made by the Council shall be regarded as of the highest importance," but is not declared to be binding. Only the vote of Persia prevented the unanimity which would have given a legally binding value to the resolution.

Article XVI more specifically provides for the use of sanctions, but it is also susceptible of divergent interpretations. At the First Assembly the appointment of an International Blockade Commission, as suggested by the Council, was recommended, and proposed amendments to Article XVI were referred to the committee on amendments. The second Assembly voted four amendments and nineteen resolutions, which were to "constitute rules for guidance which the Assembly recommends, as a provisional measure to the Council and to the Members of the League in connection with the application of Article XVI." The second amendment stipulated that "it is for the Council to give an opinion whether or not a breach of the Covenant has taken place"; the third that "the Council will notify the date which it recommends for the application of economic pressure"; the fourth that "the Council may, in the case of particular Members, postpone the coming into force of any of these measures for a specified period." The amendments are noteworthy for the absence of reference to military action, and for the special provision, responding to the demand of the Scandinavian countries, for the possible exemption of certain countries from the duty of coöperating in a blockade. The last of the resolutions points to the main reason for this new interpretation; it is that recourse to the economic weapon would merely endanger the security of League members and deprive them of their markets, at small inconvenience to the Covenant-breaking state, which could transfer its business connections to the United States or to Russia.

Not only have Articles X and XVI been interpreted almost into desuetude, but in the League's experience in the handling of international disputes the Council has never used or threatened to use

its military or economic weapons, even though on the occasions of Vilna and Corfu the parties themselves used force in defiance of the League's authority.

Limitation of armament was one of the central objects of the League as of all projected leagues; it was so understood by the framers of the Covenant and by the popular mind everywhere. Large armies were assumed to be provocative of wars and everyone looked forward to reduction of armaments.[2] The failure to achieve any drastic reduction shows how easy it is for a Great Power in the League to block action; it also shows that, even where no unanimity rule is written into the Covenant, the principle of unanimity controls. The ability of Sir Austen Chamberlain, by his single opposition, to strike a death-blow at the Geneva Protocol, must be taken into account when considering the argument that a share in League responsibilities involves a surrender of national sovereignty.

What the League has failed to accomplish in the way of disarmament and the creation of a powerful international police force, it is making up for less dramatically in the fields of economic, humanitarian, and intellectual coöperation. A sense of security may be bred by acquaintance and by habits of coöperation as well as by guarantees. Rappard's description of this method is that

> checked in its frontal attack on the citadel of war by the as yet invincible forces of national sovereignty, the League is by means of its technical bodies executing a vast flanking movement around and against it.

A good illustration of this new method was given by the World Economic Conference held at Geneva in May, 1927. The twofold object of the Conference, as defined by the original Assembly resolution, was concerned with prosperity and with peace. At the closing meeting, the President of the Conference gave a general survey and summary; and, when expressing the object and point of view of the Conference, he said:

[2] The story of the League's handling of the problem of the limitation of armament is told in Section V.

Economic conflicts and divergence of economic interest are perhaps the most serious and the most permanent of all the dangers which are likely to threaten the peace of the world. No machinery for the settlement of international disputes can be relied upon to maintain peace if the economic policies of the world so develop as to create not only deep divergences of economic interest between different masses of the world's population but a sense of intolerable injury and injustice. No task is more urgent or more vital than that of securing agreement on certain principles of policy which are necessary in the interests of future peace.

By unanimous resolution the Conference at its close, "recognizing that the maintenance of world peace depends largely upon the principles on which the economic policies of nations are framed and executed, recommended that the governments and peoples of all countries should constantly take counsel together as to this aspect of the economic problem," and looked forward "to the establishment of recognized principles designed to eliminate those economic difficulties which cause friction and misunderstanding."

The League's coöperative activities have a wide scope; they include those matters which have come to be recognized as the common concern of all nations, such as the simplification of customs formalities, the arrangement of musical, dramatic, and artistic exchanges, the suppression of epidemics, the supervision of international highways, the regulation of labor conditions, of the traffic in women and children, of the opium traffic, consideration of the problem of fiscal evasion, and the reconstruction of such states as Austria and Hungary. During the century before the war, states had resorted increasingly to collective action for the permanent organization and regulation of the great network of international interests and transactions.[3] The World War provided experience in the conduct of inter-Allied organization, further persuading men of the usefulness of joint enterprise, and at the Peace Conference Lord Robert Cecil asserted that the world was ripe for voluntary international organization, though not yet for compulsory action. The predominating French concern over security and political guarantees at the Peace Conference had delayed the opera-

[3] An account of these collective activities will be given in the Survey of 1929.

tion of these natural forces; the Covenant contained only slight mention of the League's coöperative functions, and no special mechanism was created for them; but the mesh of international coöperation had already been too finely woven to be broken, and today month to month organized coöperation and continuous conference about current affairs are among the most important of the League's functions.

Almost all unions and other international enterprises have voluntarily come under the auspices of the League, whose permanency and organization has been found to facilitate regularity and persistence in the carrying out of projects. The permanent secretariat has shown competence in the handling of these matters; it serves as a filter to catch unsound proposals, passes on all the plans proposed for the consideration of the Council and the Assembly, and has the power to reject or modify them and to condition their ultimate success by assigning them more or less advantageous places on the agenda. It can do nothing, of course, to prevent the individual action of nations, and its power is largely a negative one, checking the impulsiveness of individual states, clarifying and bringing to the surface those projects likely to appeal to the deliberate and collective opinion of mankind.

The United States has been permitted to work with the League or not, as she likes, and has participated in League activities to the extent she has desired. The League, for instance, has acquiesced in her demand for the reports of the Mandate Commission of the League, although she in no way participates in the general machinery set up to control mandates. This peculiar relationship of the United States constitutes a problem for the League the significance of which is revealed in Brazil's intimation, in resigning League membership, that she might adopt the American policy of coöperating in some chosen activities while avoiding all responsibility. A premium on League membership may have to be set in order that abstention will not appear too alluring.

Yet the position of the United States is not entirely advantageous, for valuable opportunities are missed. While League members have been improving the technique of conference and informal negotiation through eight years of experimentation, the

United States has made little advance and is fearful of substituting plenipotentiaries for instructed *ad hoc* commissions. The withdrawal of the American delegation from a meeting of the League's Advisory Committee on opium on February 6, 1925, was commented upon by M. Loudon, head of the Dutch delegation, in this way:

> An international conference presupposed the possibility of reciprocal concession and of true and real exchanges of opinion and of good will on both sides, and such a conference is doomed to failure if one of the parties has imperative instructions to impose its will upon the others under pain of leaving the conference.[4]

Note-writing is in many matters inferior to the method of conference. In speaking of the sessions of the Council, Dr. Stresemann is reported as saying:

> Their great importance is in the possibility of withdrawing great questions of debate from consideration by means of written notes and settling them through personal contacts. If we had held meetings of Foreign Secretaries before the war, such as we can now hold through the League of Nations, where personal contacts exist, perhaps we could have avoided the misunderstandings which then troubled the reality of things.[5]

European statesmen seem to have found by personal acquaintance an appreciation of one another's position, and, in the frequency of their informal contacts, an opportunity for experimental steps toward the adjustment of differences. Cabinets and parliaments of all states who are members of the League contain men who have had these contacts and have learned from them much about methods of negotiation and how they can be used to bring about multilateral agreements. The success of the League will eventually be measured, not by the number of critical issues it has decided at the brink of war, but by the number of disputes it has dissipated or held suspended in their early stages, dissolving them by compromise or conciliation or letting them pass unsolved into the limbo of obsolete controversies.

[4] Bassett, J. S., *The League of Nations, a Chapter in World Politics*, p. 351.
[5] *Journal de Genève*, March 11, 1927.

The League has not at present—it may never have—the organization or the precedents for solving through its own machinery the great questions that divide or concern the Powers of Europe, but its existence has made Geneva the symbol and the home of international compromises, for Europe, in the language of Mr. Simonds, "goes to Geneva and compromises outside of the actual limits of the Society of Nations itself."[6] Sir Eric Drummond did not summon the conferences of Locarno and Thoiry, and they were as much outside of the constitutional structure of the League as Republican and Democratic conventions are outside of the Constitution of the United States. But international understandings, though separate from the League, are facilitated when consummated under its wing. The significant fact is that without the League the new European mentality would never have been able to enforce its will upon its governments, and that Right and Left, conservatives and progressives, must go to Geneva and there accomplish the popular will to peace. The rampant nationalism upon which the European nations relied before 1914 to protect them from the devastation of war failed them utterly. With the slowness with which fundamental political ideas spread among great masses of people, it is now realized that nationalism was as provocative of hatreds as monarchy was unrepresentative, that agreement is essential, that agreement means compromise, and that the place where compromise can be obtained most easily is at Geneva.

The League is the beneficiary of a movement toward international organization which has been going on for a long time. Political and social needs, rather than any special cleverness with which the institution was put together, supply the vitamines for robust health and long life. For the problems of the future there are no simple or final answers; the problems have to be solved continuously. To the extent that successful adjustments are made at Geneva by League organs or in its aura, the sense of security increases; nations will disarm, not in consequence of universal, plural, or bilateral agreements which attempt mechanically to match ships against ships, guns against guns, gas factories against

[6] Simonds, *How Europe Made Peace without America*, p. 377.

airplanes, but *pari passu* with the growth of that individual security which comes of actual intercourse concerning common security. In Mr. Root's Woodrow Wilson Peace Prize address of December 28, 1926, he said:

> For these years the League in the political field and the Court in the judicial field have been rendering the best service in the cause of peace known to the history of civilization—incomparably the best. . . . War results from a state of mind. These institutions have been teaching the people of Europe to think in terms of peace rather than in terms of war.

IV.

FINANCIAL RELATIONS OF THE UNITED STATES GOVERNMENT AFTER THE WORLD WAR

CHAPTER ONE

REPARATIONS

INTRODUCTORY

THE reparation problem has become peculiarly important to the United States on account of the fact that the industrial revival of Germany has been effected in large measure by American finance and industry. Seventy per cent of the huge long-term loans contracted by Germany since 1924 have been supplied by the United States, besides much short-term money destined to become long-term accommodation. Altogether the total amount of this assistance is estimated at $1,500,000,000. This financial partnership has helped Germany meet her reparations, and has also intensified her takings of American exports, which increased 32 per cent in 1927 over the figure for 1926. Thus has the United States, besides being the principal artificer of the Dawes Plan, aided Germany in the reëstablishment of her economy, and served European reconstruction. American financial interests have now a considerable stake in the future of Germany, a stake that overshadows the government's interest of German reparations, which was in the nature of a special charge and which was fixed by the agreement providing for the distribution of the Dawes annuities signed at Paris on January 14, 1925. Under this agreement the United States is entitled to receive annually from Germany as her share of reparations certain payments on account of the reimbursement of the costs of the American army of occupation and of the awards of the Mixed Claims Commission established in pursuance of the German-American treaty of August 10, 1922. The outstanding charge against Germany under the head of army costs as of September 1, 1927, was $220,083,308, $27,783,094 having already been received. The Mixed Claims Commission determines and adjudicates all war claims of the United States and her nationals against Germany. Satisfaction of these awards is obtained out of 2.25 per cent of the Dawes annuities after certain deductions have been made. The amounts due American claimants aggregate over $175,000,000; the total receipts under the Dawes

Plan on this account had reached $13,920,134 by September 1, 1927.

PRESIDENT WILSON'S FOUNDATION OF REPARATIONS

PRESIDENT WILSON furnished the official starting point in the history of reparations. His Fourteen Points, given to the world on January 8, 1918, together with his elaboration of these points in addresses delivered between February 11 and September 27, 1918, were the foundation out of which grew the reparation clauses of the Treaty of Versailles, albeit in some measure contrary to the original American conception.

War aims with any claim to reasonableness and practicality had received scant attention from the Allies prior to the President's "Decalogue of peace." Among the Central Powers, they had received even less attention. As Woodrow Wilson put it, in an address beside the tomb of George Washington on September 27, 1918, the statesmen of the world had seemed "to cast about for definitions of their purpose" and had "sometimes seemed to shift their ground and their point of view." National passions had been unloosed; these had generated extravagant and constantly varying demands and these in turn the war had transformed into issues.

The main reason for the reticence of the Allies lay in the difficulty experienced by the respective groups of belligerents, even in their own countries, of maintaining a common front on the disposition of victory. Judged by some of the early speeches, victory seemed to portend a criss-cross of conflict; whenever any purely national aims were broached, they had provided cause for resentment among the Allies. The war compelled men's minds and harnessed national resources along the one channel of war-making. Clemenceau, on November 18, 1917, declared that he desired victory before a league of nations—a brusque rebuke to those who insisted on preoccupation with a league while victory had still to be won. The arrest of world order allowed European statesmanship no opportunity to begin the reorganization of a peaceful world until peace itself could be obtained. Early statements

on both sides, therefore, though parading themselves as elaborations of war aims, were propagandist speeches intended for the most part merely to add fuel to the fires of national bellicosity.

Into this maze of uncertainty Lloyd George on January 5, 1918, precipitated the first reasoned survey of war aims among the Allies. Previous consultation had assured the statement of authority as a summing-up of British opinion. In that part dealing with reparations, the British premier demanded the restoration of Serbia, Montenegro, and the occupied regions of France, Italy, and Rumania, but disclaimed any demand for a war indemnity *per se* or any attempt to "shift the cost of warlike operations from one belligerent to another, which may, or may not be, defensible." At the same time, in his category of reparations, he included injuries done in violation of international law, and specially instanced outrages on British seamen. Clemenceau, promptly wiring his congratulations to Lloyd George, said only that the statement expressed "the truth that one must never become weary of opposing the Germans."

It was on the heels of these expressions of the Allied attitude that the President launched his Fourteen Points before a joint session of Congress as "the program of the world's peace." The message was firmly anchored, unlike the speeches of Lloyd George and Clemenceau, to the idea of a league of nations. In regard to reparations there was no apparent rift in the points of view as revealed in these January utterances, for the reason, probably, that little was said beyond generalities.

In the seventh, eighth, and eleventh points, the President set down as fundamentals of peace the evacuation and restoration of Belgium, of Rumania, Serbia, and Montenegro, the freeing of French territory, the return to France of Alsace-Lorraine, the accord to Serbia of free access to the sea, and the readjustment of Balkan relationships. In an address on February 11, 1918, he added these important words: "There shall be no . . . punitive damages."

All the world greeted the Wilson program as a clarion call to discussion. Count Czernin says, "In the eyes of millions of people this program opened up a world of hope." In Germany, the effect

was electrical, for the internal conditions of the Reich had become desperate, and the armies in the field had already shown signs of a war-weariness akin to incipient mutiny.

Yet Count von Hertling, the German Chancellor, in his reply on January 24, 1918, gave little comfort to the seekers after peace on the Wilson model. "He refuses to apply them [the Fourteen Points] to the substantive items which must constitute the body of any final settlement," said the President on February 11. Hertling's colleague at Vienna, Count Czernin, spoke in "a very different tone." It was the German commanders who had still to be persuaded that the disintegration of their war machine was fast approaching. Both Bulgaria and Austria furnished warning signals, and these were emphasized by the gradual breaking of German "war-will" on the Western front in consequence of the unity of command introduced by the Allies and Associates.

After the Allied victories from July on, military recognition of the precariousness of the situation finally communicated itself to the German Government, and led to the beginning of the correspondence for an armistice, started by the new Chancellor, Prince Max of Baden, on October 4, 1918. Prince Max's first request was abruptly worded, but included an acceptance of the Fourteen Points, which in succeeding messages were apparently regarded as the foundation of the hope of the German nation in the working out of a permanent peace of justice. President Wilson had insisted on the adoption of his points as "the terms of peace," not as "a basis for peace negotiations." The Germans finally acquiesced in this terminology. Said the second note of the German Government, on October 12, ". . . Its object in entering into discussions would be only to agree upon the practical details of the application of these terms." The declaration, which met with the President's approval, ushered in the negotiations for the cessation of hostilities.

Before an armistice could be concluded, the Allied Powers had to be consulted. Germany's overtures had led Allied minds back to the January outlines of war aims. Most of the President's speeches had been addressed to the "court of mankind," and had elicited little response from responsible ministers in Europe. War

exigencies still precluded any premature thoughts about peace; sufficient unto the day of peace were the fruits of war. But the request for an armistice on the basis of the President's Fourteen Points brought about a reconsideration of those points as a matter of practical politics. Was there sufficient latitude in them for the threshing out of divergencies of interpretation over the peace table? Apparently not; for an Allied qualification approved by the President and sent by him to the German Government on November 5 insisted that "compensation" must be made by Germany "for all damage done to the civilian population of the Allies and their property by the aggression of Germany by land, by sea, and from the air." Thus "compensation" took the place of "restoration" as the key word in the pre-armistice correspondence; it was specifically connected with physical damage.

Article 19 of the conditions of armistice had the effect, contrary at first to American and British interpretation, of still further broadening the base of reparation. It read "With the reservation that any subsequent concessions and claims by the Allies and the United States remain unaffected, the following financial conditions are imposed: Reparation for damage done . . ."

There was no "by land, by sea, and from the air" here, probably because America and Great Britain considered it, in the phrase of J. M. Keynes, merely "a casual protective phrase," having no relation to the peace terms of reference. It was drawn up by Klotz, the French Minister of Finance, and the French were to make much use of it in subsequent discussions. André Tardieu expresses their attitude in his *The Truth about the Treaty.* He says, "The armistice marked the capitulation of the enemy, a capitulation which was unconditional surrender."[1] The implication was that the peace-makers had a blank sheet to write on. Neither the United States nor Great Britain could agree; they thought, the United States decidedly and Great Britain waveringly, that terms of reference had already been written on the paper of peace, namely, the Fourteen Points and their subsequent qualification. The Allied and Associated Powers had already built an accepted fence beyond which the negotiators could not stray without impairment

[1] P. 76.

of their good faith. Yet, though some of the Powers continued to deny the pertinence of the armistice terms in the reparations discussion, they finally allowed the French to lead them into adherence to the following statement, sent to the Germans on June 16, 1919, in answer to German objections to the Treaty: "The Allies' proposals confine the amount payable by Germany to what is clearly justifiable under the terms of armistice." Here was a clear assertion of the relevance of the reparations clause in the armistice conditions; an example, therefore, of the "disastrous doublemindedness"[2] of the economic settlement.

HOW THE PEACE CONFERENCE BUILT ON THE WILSON PROGRAM

With the signing of the armistice, on November 11, 1918, the field seemed set for the implementing of the declarations on reparations. Much activity had still to be expended before the negotiators could assemble in Paris. A war-scarred world could not seek peace so easily. An epoch had come to an end; a new epoch, presaging a new reorganization of society, was to be ushered in. As General Smuts put it, "the great caravan of humanity" was once more on the march. But humanity was bruised and battered, and the caravan was rocking so violently that the British and French Governments deemed it advisable to seek mandates from their constituents before venturing to speak in their behalf at the Conference of Paris. At these elections the full effect of the titanic struggle on the minds of men found painful revelation.

Keyed up to the highest pitch of enthusiasm and coördination in pursuit of destruction, the Allied peoples found relief from their four-year-old strain in an orgy of financial and emotional extravagance. The governments of Britain and France took their cue from this manifestation of war's legacy. Demands for the exaction of full retribution resounded from press and platform. "Peace without Victory" seemed a mockery in "these strange weeks of imaginative tumult and vengeful stoicism." "Make Ger-

[2] Baker, *Woodrow Wilson and the World War*, II, 283.

many pay," shouted the British; "*Que L'Allemagne paye d'abord,*" responded the French; "Shilling for shilling, ton for ton," echoed the British politicians. It was reminiscent of the early days of the war in Germany, when German politicians envisaged their enemies "dragging through the centuries the chains of the indemnities." Allied claims for the total cost of the war were traced to the traditional right of the conqueror. Almost the first task of the President was to scotch the use of the word "indemnity," but as the negotiations bore witness, the prohibition extended only to the language, not to the minds, of the Allied statesmen.

Armed with mandates erected upon election cries, the Allies assembled in Paris at the close of the year. Paris was to be the capital of the world for the next six months; a melting pot in which national destinies and international relationships alike were to be brewed. To the minds of the American negotiators, freed by distance from the intimate stress of Allied commitments, terms of reference based on vengeance were in entire disharmony with the Wilson program; but, as one of the American negotiators put it "in the reparations clauses, the conference . . . was dealing with blood-raw passions still pulsing through the people's veins."[8] An atmosphere far removed from the healing acts stipulated by President Wilson!

In these circumstances it was natural that the American delegation should be better equipped than their colleagues both with reparation data and with the detachment of mind necessary to the formulation of the settlements on sane principles. While the European politicians were haranguing their constituents, the American experts had been conducting field examinations into war damage in Europe. They brought their data and their principles of reparation to the first meeting of the Commission on Reparation of the Conference on February 3, 1919. In the absence of a definite program of procedure from any other delegation, discussion immediately centered on the American thesis.

The commission was one of several bodies to which the ramified interests of peace-making were referred. It was instructed to

[8] Baruch, *The Making of the Reparations and Economic Sections of the Treaty,* p. 7.

examine and report on (1) the amount which the enemy countries ought to pay by way of reparation; (2) what they were capable of paying; (3) by what method, in what form, and within what time, payment should be made.

The United States delegation was composed of: Bernard M. Baruch, Norman H. Davis, Vance C. McCormick, with Jerome D. Greene as secretary. Later on, Thomas W. Lamont was named as alternate to Mr. Davis. John Foster Dulles acted as the delegation's legal adviser, while an imposing corps of experts was assisted and advised by Professor Allyn Young. Jerome D. Greene became secretary of the Inter-Allied Reparation Secretariat.

"Unquestionably the industrial and financial development of the whole world for a long time to come will be largely influenced by the reparation settlement," says Mr. Baruch. In this spirit the American delegation approached their task. They were unhampered by the territorial conflicts that competed with the reparation question in many European minds. They had not the political task of repairing maimed national structures. They had not been singed by the heat and turmoil of popular feeling. The link with home politics resided in the person of President Wilson; politically speaking, his position was even more difficult than that of the other principal delegates, but he had entered the peace councils on the crest of a wave of popular approval for his Fourteen Points, and hoped to retain that support throughout the vicissitudes of the working out in Paris of his program, as an offset to, and perhaps as an influence upon, the political obstacles in his path in Washington.

In general, President Wilson in Paris was as indifferent to political expediency as the other delegates were sensitive to it. Leaders in the Allied groups had to keep one ear to the ground for home repercussions of treaty-making developments. The President, on the contrary, assumed a prerogative almost analogous to that enjoyed by the autocratic and near-autocratic negotiators at the Congress of Vienna, who were themselves unfettered by the responsibilities attaching to elected persons in this day of universal suffrage and political consciousness. It was the work of the American delegation to interpret the policy of a man whose

position as President of the United States had given him the opportunity to assume the rôle of supreme arbiter at a critical stage in world history, and who, for the nonce, had secured the ratification of his people in that high purpose.

Keeping themselves rigidly within Wilson terms of reference, the American delegation attempted to define the Allied qualification relating to compensation as meaning "direct physical damage to property of a non-military character and direct physical injury to civilians."

As was to be expected, the commission gave a frigid reception to an interpretation whose purpose was to limit discussions to physical damage, leaving the costs of war, in insistence upon which Allied politicians had already poured out oceans of demands, outside the pale of reparations. Belgium, as a beneficiary under physical damages rather than under war costs, and fearful lest the inclusion of war expenses might lead to a diminution in her claims in respect of physical damages, alone supported the Americans. W. M. Hughes, then Premier of Australia, led the agitation for the inclusion of war costs as part of the "compensation" required of Germany. He was head of the British representatives on the Commission; hence, it was inevitable that the British case, when it did not wear the chameleon-like complexion of Lloyd George, should have a Dominion coloring. The British Dominions, having suffered no physical damage, were understandably in opposition to an arrangement that would reduce their compensation almost to the vanishing point; they as naturally wanted costs as Belgium wanted damages.

Mr. Hughes tried to establish a case on grounds both of equity and the practice of victors. War costs had been demanded from France in 1815; from Sardinia, in 1849; from Austria, in 1866; from France, in 1871. Reimbursement of war costs had generally been a penalty imposed upon the vanquished. On grounds of equity, he contended that it was absurd to compensate a Belgian for the destruction of his home and not to compensate an Australian for mortgaging his. Or, to put it another way, the nations who fought in defense of their guarantee of Belgian neutrality should have the same consideration as Belgium herself.

Vigorous discussion proceeded over the American interpretation of reparation principles. No others were on the table. When asked to produce an alternative program, the delegates either could not supply one, or would not commit themselves. Nor would they admit the validity of the American construction of compensation. Through Mr. Dulles on February 13, 1919, the American delegation protested their desire to see reparation made to the uttermost limit; that limit being "a fair construction of the agreed terms of peace."

Starting from such different premises, the delegations, after much controversy, found themselves in a *cul de sac*. There was no alternative but to submit the issue, physical damages vs. war costs, to the Supreme Council, which was done in March, 1919. To assure themselves of the highest endorsement, the American delegation obtained on their case the imprimatur of President Wilson en route to the United States on the *George Washington*. His wirelessed reply read as follows:

> I feel that we are bound in honor to decline to agree to the inclusion of war costs in the reparation demands. The time to think of this was before the conditions of peace were communicated to the enemy originally. We should dissent, and dissent publicly if necessary, not on the ground of the intrinsic injustice of it, but on the ground that it is clearly inconsistent with what we deliberately led the enemy to expect and cannot now honorably alter simply because we have the power.

Here was a reëndorsement of "compensation" in its pre-armistice signification as a peace pledge.

Dilemmas quickly ran into one another. No sooner had one obstacle been cleared than another arose to obstruct any passage to a formulation of the Treaty provisions. Demands for war costs were dropped by the Supreme Council when the statisticians revealed some idea of their staggering proportions.[4] The recovery of these money costs seemed a "great illusion." But, if given a breathing spell for reorganization and if equipped with the patriotic spur to pay, Germany might have been capable of raising

[4] Tardieu remarks lugubriously that by the abandonment of war costs, the Conference reduced the German debt by 700,000,000,000 gold marks.

staggering indemnities. The "great illusion" is the economic ability to afford such a competitor in the family of nations as a nation which is harnessing itself without regard for living standards to the production and transfer of wealth. But this was not an active fear at Paris.

Having obtained the acquiescence of Lloyd George, Clemenceau, and Orlando in the limitation of discussions to damages, the American delegation again found themselves in conflict with their colleagues over the question of what precisely constituted damages within the meaning of the peace terms. Discussion resolved itself into the listing of damage categories, but no agreement could be obtained on the important item of pensions and separation allowances.

Was payment for a destroyed chimney to be placed above compensation for a lost life or a pension for a blinded or wounded soldier? This in a nutshell was the Allied attitude, and one that on political grounds was difficult to counter. The American experts had originally estimated that probably Germany could not pay much more than a capital sum of $15,000,000,000,[5] and this was about the amount that it was thought would be demanded in damages under the categories exclusive of pensions and separation allowances.[6] If this or any other lump sum were agreed upon, and if apportionment were by percentage, what France gained in pensions and separation allowances, she would lose in relief for her devastated areas; or *vice versa*. On the contrary, Great Britain would gain by the inclusion of pensions and separation allowances, for she had suffered little material damage compared with France. This was only one of many instances of the cross-currents into which the disposition of victory threatened to lose itself in argument among twenty-seven participants.

The United States contended throughout the Conference for the fixation of a lump sum, and a reasonable one, by way of reparation. Preliminary Allied estimates of what Germany could pay ranged all the way from $8,000,000,000 to $120,000,000,000;

[5] A dollar is roughly equivalent to four gold marks.

[6] In a final effort to introduce some definiteness into the settlement, the American delegation, in conversations on the German reply to the peace terms, suggested capital sums up to $30,000,000,000, though this maximum figure included part payment in German currency.

estimates of damages were equally vague. Divergencies in estimating damages were doubtless as much conditioned on the expectations of the victors as on lack of information. In many cases, the affected nations showed an unwillingness to produce figures of the physical damage they had suffered.

American objections had eventually to give way, and pensions and separation allowances found a place in the categories of damage. This was brought about mainly by General Smuts, whose memorandum on the subject, though regarded by many observers as an essay in inverted reasoning, was cogent enough to persuade President Wilson. According to Mr. Lamont, in *What Really Happened at Paris*, the President's advisers "explained to him that we couldn't find a single lawyer in the American delegation that would give an opinion in favor of including pensions. All the logic was against it." "Logic! Logic!" exclaimed the President, "I don't give a damn for logic. I am going to include pensions!"[7]

The abandonment of war costs had impelled the Allies to look askance at the Wilsonian principle of the special position of Belgium, and at one time it looked as if Belgium would be left out in the cold. Mr. Hughes's Australian showed his head again, pointing eloquently and reprovingly at his mortgaged home. But the United States delegation's advocacy of Belgian claims received unexpected endorsement by the dramatic appearance of King Albert before the Supreme Council. The King of the Belgians, on April 1, 1919, flew from Brussels to Paris for the purpose of recalling his country's needs to the Conference. Recognition came toward the end of the Conference, and Belgium was compensated for the entire loss to which she had been subjected as a result of Germany's violation of her neutrality. The Conference went further; in view of her pressing needs, she was to receive on account about 4,000,000,000 gold marks as preferred payment out of the first cash, securities, and deliveries in kind received from Germany.[8]

[7] P. 272.

[8] Belgium also received preferential treatment in the settlement of her debt with the United States. The entire interest on her pre-armistice debt was cancelled. See pp. 442-443.

THE FORMULATION OF THE REPARATION CLAUSES

When these questions of principle had been settled, the Conference proceeded to inquire into the methods of performance of Germany's obligations under the categories. These methods fell into three classes: (1) the restitution of objects removed; (2) reparation in kind; (3) financial restitution. Under the terms of the armistice, Germany had anticipated reparation in means of transportation, war material, and submarines, railroads in Alsace-Lorraine, and cash securities, animals, and objects sequestrated and confiscated during the war, to an amount variously calculated in the region of $1,000,000,000. Further deliveries had also been effected prior to the deliberations of the Commission on Reparation. Article 19 of the armistice convention stated that "nothing can be diverted by the enemy from securities that may serve the Allies as pledge for the payment of reparations." At Trèves, on December 13, 1918, and January 16, 1919, the extent of this embargo had been set forth. Germany had been compelled to submit to all manner of limitations on her financial and economic life; but for American intervention, exercised through Norman H. Davis, these would have logically developed into a quasi-control over her finances. The establishment of a general control of German finances was, in fact, the ultimate aim of the French at this time.[9]

With one exception, all these items of things surrendered were to be considered credit deductions from the reparation bill to be paid by Germany. The exception was the sequestrated and stolen objects and property which the terms of armistice required should be restored. Delivery requirements were written into the Treaty to provide also for the surrender of ships to the Allies and Associates, for the handing over of animals and material, of coal and derivatives of coal, and of chemical products. All of these contributions were to be regarded as payments on reparation account, which, furthermore, was to be credited with the following:

(a) the value of submarine cables ceded by Germany, in so far as they were private property;

[9] Klotz, *De la Guerre à la Paix*, p. 100.

(b) deliveries made under the provisions of the Armistice, exclusive of war material, mainly material for transportation and agricultural machines;

(c) the value of the coal mines in the Saar region, which were ceded to France;

(d) any payments which the Reparation Commission was to receive from the Powers to whom German territory was ceded, as compensation for their acquiring property of the Reich or of German states, or on account of their obligation to pay part of the debt of the Reich and the States;

(e) the value of the rights and participation of German nationals in public utilities or concessions in Russia, China, Austria, Hungary, Bulgaria, Turkey, or in the territories ceded by Germany under the Treaty, so far as the Reparation Commission might order the transfer of these rights.

What was the reparation account? How much was the bill that was constantly to be drawn on in this way? It seemed a curious procedure to make the defeated pay so much on account of a debt that had not yet been fixed. None but the American and British delegations would essay any definitive approach to the answer. On their part, the Americans would not consent to the demand of any definite sum from Germany unless satisfied of damage to at least that amount. It soon became hopeless to expect any itemized list of damages, at least any cash assessment of them; and so, in the end, the delegates had to confess their inability to come to any decision on their terms of reference, which required the Commission on Reparation to fix the amount of reparations and the capacity of the enemy countries to pay them. These problems were unloaded on to a new reparation commission set up by the Treaty.

M. Tardieu's book provides the best and most authoritative summary of the French standpoint on the question of the determination of Germany's liability. "You have established damage categories," he says in effect.

If you try to fix a lump sum, you might find that it will not cover the stipulated damages, and France cannot give up her rights to full and complete reparation for all the destruction to life and property caused by Germany. Besides, you cannot say what is Germany's

capacity for payment. At present her economic structure is broken down; ten years hence, the sum you fix upon now might look absurdly low. Improvised estimates would be imprudent; the matter should therefore be left open.

France did not wish to indulge in the definition of a reasonable, or even of a conceivable, sum, and in this she received support from Italy and the smaller states, who wanted an indefinite range for reparations because their hopes had of necessity to rest upon what would be left over after the greater Powers had taken their share. An important section of the British delegation expressed similar latitudinal views.

The new Treaty Reparation Commission was given many specific instructions. By May 1, 1921, it was to fix the total amount of Germany's liability. Concurrently it was to draw up a schedule of payments prescribing the time and manner for securing and discharging the entire obligation within thirty years from May, 1921; far-sighted statesmanship counselled the wiping out of the whole debt in the course of a generation. At the same time, much discretion was left to the commission; it might extend the date and modify the form of payments, but it could not indulge in any attempt at cancellation save with the specific authority of the governments concerned.

The commission was given a ragged outline of the beginnings of the reparation account. Payment was first to proceed by the above-named deliveries in kind. These were to be part-payment of a first instalment of 20,000,000,000 gold marks, or about $5,000,000,000, which Germany was obligated to pay before May 1, 1921. In addition to the deliveries, the expense of maintaining armies of occupation and of importing urgently needed foodstuffs by Germany was to be accounted part-payment of the first instalment. Though fixation of the entire cash indebtedness was avoided, a sort of acknowledgment of it was to be handed to the commission in the form of bearer bonds. The amount of these was 100,000,000,000 gold marks, and the issue, which was to be in series, was a kind of guaranty of German fulfilment of her obligations. The figure selected had no relation to the indebtedness under

reparation; the bond issue remained a form by which some of the debt might be liquidated if the occasion arose, although the necessity for building up the credit for these bonds, which could only be the rehabilitation of Germany, received half-hearted attention from the authors of the scheme.

The provisions for possible default in reparation payments were as follows:

> In case of default by Germany in the performance of any obligation under this part of the present Treaty, the Commission will forthwith give notice of such default to each of the interested Powers and may make such recommendation as to the action to be taken in consequence of such default as it may think necessary.
>
> The measures which the Allied and Associated Powers shall have the right to take, in case of voluntary default by Germany, and which Germany agrees not to regard as acts of war, may include economic and financial prohibitions and reprisals and, in general, such other measures as the respective governments may determine to be necessary in the circumstances.[10]

These were the "sanctions" clauses that later assumed importance in reparation history.

The first charge on German reparation account was the cost of maintaining the armies of occupation. Added to this, yet divorced from the reparation clauses, and apparently outside the orbit of the Reparation Commission, were financial provisions that Germany should be responsible to the nationals of the Allied Powers for the pre-war debts of her own nationals. Mixed arbitral tribunals[11] were also to assess and charge to Germany all damages suffered by nationals of the creditors as a result of exceptional German war measures.[12] All these payments, coupled with army costs and deliveries in kind, swallowed up the sums

[10] Sections 17 and 18 of Annex II of Part VIII, Treaty of Versailles.

[11] Not to be confused with the Mixed Claims Commission for war damages established by agreement between the United States and Germany. See p. 464.

[12] "It is a fact that some members of that Reparation Commission were not aware until the Autumn of 1920 that Germany had already paid large sums of money to several of the Powers under the clearing operations. . . . Unquestionably the arbitral tribunals were thus used to carry on private reparation alongside general reparation." Bergmann, *The History of Reparations*, p. 16.

paid by Germany up till May 1, 1921, and left nothing for reparation proper.

So it came about that the Germans, when they signed the Treaty on June 28, 1919, did not know what was expected of them beyond the fact that they had to harness their economic machine indefinitely to the task of paying reparations. No wonder they were not able to balance their pre-Dawes Plan budgets when they had no means of gauging the exact nature of these commitments.

Before one subscribes to the prevalent criticism of the reparations clauses, it is well to ponder the circumstances in which they were conceived. The Allies came to the Conference weighted down with immoderate commitments to constituents who had been thrown off their psychical equilibrium by the ending of an unprecedented strain on civilization. As Herbert Hoover put it, "the wolf was at the door of Europe" throughout the Conference. Without the war to batten on, this pervasive war spirit, attended by the shadow of famine, might at any time have blazed out in revolt. To deny the demands of victorious peoples in the white heat of revenge would have invited widespread rebellion against established authority.

It has been said that the Treaty of Versailles sowed dragon's teeth over Europe. So did the Congress of Vienna. So have all peace parleys involving more than two participants. They have to be tempered in a furnace of seething ambitions, and no matter what instrument is brought forth, the furnace remains and continues to seethe. Furthermore, unlike Vienna, Paris was the venue, not of princes, but of commoners, who, besides being the bearers of the mandate of war-crazed peoples, had the task of undoing world history for the preceding half-century and of incubating a new ordering of world society. "The conference city," said an expert observer, "was . . . the clearing house of the Fates, where the accounts of a whole epoch, the deeds and misdeeds of an exhausted civilization, were to be balanced."[13]

The wonder is that the work of Paris, inaugurated under these auspices, did not destroy German sovereignty. Retribution for a time overbore common sense; it was an attitude of mind that the

[13] Dillon, *The Inside Story of the Peace Conference*, p. 5.

American delegation sought long and earnestly to remove. Gradually it came to be appreciated in circles other than American that the amount of reparation was the measure of service that the world was willing that Germany should render to it. To render service, Germany must be rehabilitated, and thus the guiding principle to the Reparation Commission was that they must take into account the maintenance of the social, economic, and financial structure of Germany. Coal options were to be enforced subject to the industrial needs of Germany; reconstruction material was to be called for only in proper relation to those needs; the only defaults by Germany that would subject her to penalty and retaliatory action were to be wilful defaults. In other words, to quote the interpretive note to Germany on June 16, 1919, "the resumption of German industry is an interest of the Allied and Associated Powers as well as an interest of Germany." This involved a degree of coöperation in the restarting of Europe that would have gone far to overcome the difficulties of working out the Treaty. But these economic injunctions were not integrated into the main premises of the Treaty and were forgotten in the subsequent flaming up of political passions and their domination of events.[14]

THE REPARATION COMMISSION—WITHOUT AMERICA

THE Reparation Commission was to be composed of one delegate and one assistant delegate each from the United States, Great Britain, France, and Italy; these states were to enjoy permanent representation. Japan was to alternate with Belgium for the fifth

[14] This discussion of reparations is limited to its German aspect; partly because of the predominance of Germany's position, and partly because reparations from the other enemy states were either postponed or revised in such a way as to be withdrawn from the picture of contemporary affairs. Reparations from Austria were based on the same principles as governed German reparations, but on January 11, 1921, Austria declared herself at the end of her resources, and on September 27, 1922, with the aid of an international loan, floated at the instance of the League of Nations, acquiesced in a League committee of control. On February 21, 1923, she was granted a twenty-year moratorium on reparation payments. Reparation payments from Hungary were protected by a system of League financial control from injuring Hungarian economy. She was also granted an international loan. Revision had to be effected for different reasons in the modus governing reparations from Bulgaria and Turkey.

seat, and Serbia also was to enter the commission in the event of discussions on certain subjects. The chairman was to be elected annually and had the deciding vote in case of a tie. In certain instances, such as questions of postponement of German payments beyond 1930, and the interpretation of the reparation provisions, unanimity was necessary.

American non-ratification of the Treaty gave the Reparation Commission a false start. It threw the mechanism out of the order ordained by the Treaty, for instead of being represented officially, the American Government elected to look on merely in an advisory capacity by means of "unofficial observers."[15] Albert Rathbone, Roland W. Boyden, James A. Logan, and E. C. Wilson, holding credentials from the State Department, successively held this post, and in time through them America's services extended even to the arbitration of questions in dispute.

America "outside looking on" was not American participation. Radical readjustment had to be effected. Five members with voting power were to have sat on the commission. It is generally taken for granted that in the event of her ratification of the Treaty, America would logically have assumed the chairmanship. The results of the American refusal to participate are self-evident; it reduced the voting strength of the commission to four, and in the political circumstances of the times, this led frequently to friction and deadlock. The line-up was generally France against the others, with Belgium in a cleft-stick between Great Britain and France, sometimes supporting France and sometimes in opposition.

Perhaps the German observer attached to the commission, Carl Bergmann, is best qualified to appraise the meaning of American non-participation. In his *History of Reparations*[16] he says:

> Among all the Powers participating in the war, America was the least partisan or prejudiced in her attitude toward the struggle. Under her chairmanship it would have been best possible to apply the

[15] The subsequent adjustment of representation on the Reparation Commission is shown on p. 368.

[16] Bergmann, according to Sir Josiah Stamp, acquired "a probably unrivalled knowledge of the sequence of events."

principles of justice and equity. An impartial leadership was all the more called for because the Reparation Commission was invested with far-reaching authority which, in theory at least, amounted to a dictatorship over Germany. In all important cases, except where the Treaty expressly required unanimity, the vote of the American delegate would have been the deciding factor. The absence of America had the effect of throwing the chairmanship and predominant influence in the Commission to France. Up to a certain point this was justified, as France had suffered the heaviest damage and had a claim to receive the largest share of reparation, but it had the important psychological disadvantage of emphasizing as sharply as possible the natural antagonism between the Commission and Germany. The feelings of hatred, bitterness and fear against Germany, bred by more than four years of war on French soil, were bound to be reflected in the Commission's deliberations when once France enjoyed decisive influence. But as a result of this development Germany's disposition and feelings with regard to the Reparation Commission were also influenced adversely. With the United States occupying the chair, the great majority of the German people could have believed that justice and equity would really be the guiding principles of the Commission. With French influence preponderant it can only too readily be understood that Germany forthwith looked upon the Commission as an enemy, from the power of which it sought to escape at the first opportunity.[17]

Be this as it may, the seekers after the appeasement of Europe pinned their hopes on the continued exercise of America's moderating influence in the body charged with the collection of reparations. Without it they felt it would be as difficult to promote any softening in the contacts of reparations as to inaugurate a let-live policy on which the discharge of Germany's liability in the last analysis depended.

The commission, minus American coöperation, entered into formal organization on the date of the deposit of ratifications, January 10, 1920. To pick a way through the record of their labors is a task calling for infinite patience. George P. Auld, their former accountant-general, says that not half a dozen men in

[17] P. 23.

Europe could do it. Prior to the adoption of the Dawes Plan, the Reparation Commission held four hundred meetings and the Allied premiers met in an extended series of peregrinating conferences. "In the minutes of those meetings, and in the contents of a vast mass of economic, financial, and legal reports, there were literally hundreds of items of unfinished business on which it had been impossible to reach agreement," says Mr. Auld. Reparations became a *mélange* of political jockeyings and economic fantasies. The Conference at Spa, on July 5, 1920, after hearing a speech by Stinnes which began "I have risen in order to look all my adversaries in the eye," never reached its stated objective of entering upon "the practical application of the Reparation clauses"; the London Conference on March 1, 1921, was wrecked by the German failure at the eleventh hour formally to advance their *Besserungsschein*[18] proposal; the Conference at Cannes on January 4, 1922, broke down as the result of the fall of the French Cabinet; the Conference at Genoa on April 10, 1922, was left high and dry by the signing of the Treaty of Rapallo between Germany and Russia. This was the story all the way through—misunderstandings either by Germany or the Allies, political crises at home, blunders by the negotiators, and French relegation of discussions to the back stairs, all contributing to the recession of amicable settlement and to the development of a "sanctions" attitude of mind in France. France's repeated ban on the discussion of reparations at the intermittent conferences on European reconstruction invested these gatherings with incongruity. Avoiding reparations at French behest, European economic experts examined solemnly the periphery of the subject, knowing full well that their judgments had no heart in them. Plans, counter-plans, interim measures, provisional solutions—all of them had their brief moment of life; but hopes were no sooner kindled than reaction turned them into despair, and the *dramatis personae* of reparation had to go back to the beginning of the long weary road of negotiation.

[18] *Besserungsschein* is the technical term in German law for the written promise of a bankrupt debtor, given on a general settlement, to make additional payments when his position improves. It would have given the Allies an obvious interest in the rehabilitation of Germany.

The Economics of Deliveries.

The business of making Germany fulfil even the advance payments in materials stipulated by the Treaty quickly uncovered fundamental economic difficulties. One Ally's meat was another's poison; deliveries spoiled markets. They also involved the problem of adjusting an artificial clog in the mechanism of European industry as well as commerce and credit. Germany offered material and labor to repair the devastation in France—the same method of reparation as was enforced after the Punic wars. It was unacceptable tribute in the twentieth century; in our modern world goods received for nothing would not be the result of domestic production and domestic employment in the creditor country. This difficulty might be obviated by an extension of financial wealth or credit in the recipient country simultaneously with the accession of real wealth. Under the existing credit system, however, the unrestricted flow of German material into France would have harmed France's domestic industry, while German labor on French soil would have had to run the gauntlet of opposition from French trade unionists. Even as late as 1927, after deliveries had been regulated in the light of their effect on national economies, we find M. Caillaux pleading for revision of the Dawes Plan on the ground of its serious consequences to French private trade and industry by its artificial stimulation of German competitive capacity. Germany was benefiting from giving goods away! The receipt of them, carried on in the haphazard fashion of the early years of the peace, would have been ruinous to France's economic life; it was for this reason that regulation was resorted to, and that by the end of 1922 Yugoslavia had received the lion's share of deliveries in kind because of the capacity of her agricultural economy to absorb them.

"Beware of the Germans bearing gifts!" eventually became a general warning. As in France, so in England deliveries provoked endless arguments concerned with their wisdom or unwisdom. Economists at first held that deliveries would enlarge the purchasing power of recipients. Great Britain's experience soon falsified this prediction, and was eventually written into safeguarding laws against the dumping of certain classes of German

goods on British soil. The delivery of German ships to Great Britain, far from increasing British purchasing power, contributed directly to unemployment in British shipyards. Regulated coal deliveries may have been a blessing to France and Italy, but they were a curse to the British export trade, lessening the demand for British coal on the continent and bringing down British prices to meet the competition of reparation coal. The export price f.o.b. of a ton of British coal was reduced from 81s 2d in 1920 to 22s 1d at the end of 1922 partly as the result of this competition. The parlous condition of the British coal industry was so much aggravated by the competition of reparation coal on the export market that some writers have made out a case to prove that it was a contributory cause of the paralysis in the coal industry leading to the disastrous general strike of 1926. The British export trade is still suffering from reparations competition, witness the following comments in the London *Economist*, January 28, 1928:

> In British coal trade circles it is realized that there are serious difficulties in the way of securing a modification of the arrangements between the Italian Government and the Reparation Commission under the Dawes scheme, but it is contended that the execution of the Dawes Plan should not prejudice the interests of any one of the Allied countries, and that the maintenance of deliveries to Italy at the high rate of 420,000 tons per month is a further grievous blow to the coal export trade of the United Kingdom.

Allied troubles in receiving reparation in kind have been somewhat alleviated by regulation, and the Allied industrialists have been somewhat mollified by an elaborateness of procedure. Still the creditors are showing an increasing tendency to take their reparations in cash. The reichsmark payments, representing mainly deliveries in kind, have dropped from 69.63 per cent to 45.77 per cent of the annuities, although, since the annuities are on an ascending scale, this has been accompanied by an increase in volume. They are hedged around with safeguards more or less in accordance with the economic interests of Europe, but still posited on political considerations. The arrangements for coal and other

deliveries to France, which had been in force in the occupied areas of the Ruhr, were extended by common consent on May 1, 1925, on a commercial basis. Under these new and revised regulations, contracts are entered into between German sellers and French buyers, the Germans being under obligation to take payment through the Agent General in Berlin, and the French buyer being precluded from reëxporting the goods. The procedure is that the contract is first sent for approval to a joint office maintained in Paris by the German Government and the Reparation Commission, and then to the Transfer Committee, payment being made in the following manner: A representative of the French Ministry of Finance draws a draft upon the credit of the Agent General, and delivers it to the French purchaser, and the latter pays the French Government. The French purchaser then endorses the draft and sends it to the German seller, who deposits it with his bank, and the bank presents it to the Agent General for payment through the Reichsbank.

Then there is the indirect form of deliveries, governed by a new system of administering reparations under the Allied Reparation Recovery Acts. The creditor governments keep statistics of their monthly imports from Germany, of which, under the Recovery Acts, 26 per cent is a reparation charge. The bill is sent to Berlin for payment. Meanwhile the German Government collects the foreign exchange accruing to the German exporters from these transactions, hands it to the Agent General for transfer, and receives reimbursement from that official in reichsmarks. The German currency is then passed on to the German exporters affected. These payments to the creditor states appear in the Agent General's reports as "transfers in foreign currencies." The new procedure was introduced, first, to bring these transfers under the control of the Transfer Committee, and, secondly, to avoid the red-tape involved in collecting reparations through individual transactions at the importing destination.

The Employment of Sanctions.

These lessons had still to be learned. Germany was "reported" to her creditors on July 30, 1920, for a default on coal; but after

the difficulty had been smoothed over, the converse happened, so much reparations coal being received in France that it had to be thrown on the world market. So it went on until the occupation of the Ruhr, economic necessities sometimes influencing the Reparation Commission to wink at non-delivery, political expediency sometimes calling for sharp rebuke.

Political histrionics served to make the reparation issue a conflict between the Allies and Germany, with singularly small reference to the Reparation Commission, which was hard put to it to maintain the pace of the Allied discussions. Public opinion, fomented in large part by the quick-change indignation of Lloyd George, became inflamed when Germany elected to keep a few cards up her sleeve at the London Conference of March 1, 1921, by failing to offer the Allies the increased benefits afforded in the *Besserungsschein* proposal; and, as Germany continued to be stiff-necked, Marshal Foch moved troops into Dusseldorf, Duisberg, and Ruhrort on March 8, 1921. In this first expression of French "sanctions" policy Great Britain and the other Allies concurred, Great Britain in the retention of a percentage of the value of German imports, and other Allied states in the sanction of similar instruments of reprisal, although it seems open to question whether the Allies bothered overmuch with any attempt at interpretation of the "sanctions" clauses of the Treaty.

Enforcement of wholesale sanctions *à la Française* depended upon the pillorying of Germany for voluntary defaults and an arbitrary interpretation of the nebulous Treaty clauses which made such defaults the occasion for reprisal. For months before January 9, 1923, Germany had not handed over the requisite contributions of coal. Timber deliveries were also backward, but these were not sufficient reason for the establishment of a case for occupation, and so the Reparation Commission, urged by M. Poincaré's policy, proceeded to make out a case on the coal defaults. The "posting" of Germany over the non-delivery of coal, though non-delivery was known to be entirely involuntary, was done without the adherence of the British delegate on the commission. Britain had finally decided to abandon her task of placating France; the Anglo-French rift widened into a chasm, and France, stifling

with budget and currency problems which reparations were not helping to solve, elected to play her own hand and seize guarantees herself. No sooner had the dubious authority of the commission been offered than French and Belgian troops entered the Ruhr on January 11, 1923.

National nerves became frayed in this inability jointly to translate into action the methods laid down at Paris for dealing with Germany, keeping the Allies at loggerheads and Europe in a ferment. The Dawes Plan closed the chapter, replacing the guarantees of Poincaré with a protected system founded on the resuscitation of German credit. Allied bickerings had repercussions in the Near East where Greek was pitted against Turk, and in the Middle and Far East, where French and British policies fell apart for no other ultimate reason than friction over German reparations.

The difficulty of defining the total bill against Germany brought with it both economic disturbance and political tension. So difficult did it appear that it was not until April 27, 1921, four days before the expiry of the time limit, that the Reparation Commission determined Germany's obligation. This was set at 132,000,000,000 gold marks, subject to certain deductions, and exclusive of the Belgian priority of 4,000,000,000 gold marks. No official statement was ever made as to how it was arrived at, but, according to John Foster Dulles,[19] approximately 45,000,000,000 gold marks was ascribable to material damages and 87,000,000,000 to pensions and separation allowances. Under threat of an ultimatum Germany had to accept the arrangement, and payments began to be made under what came to be known as the London Schedule, decided on May 5, 1921. The payment of 1,000,000,000 gold marks was the only cash payment under this schedule; other credits on reparation account are discussed below.

CONDITION OF EUROPE PRIOR TO THE DAWES PLAN

It is well to examine the causes of the tension among the Allies, for the divergencies in attitude toward Germany sprang from many roots. New political issues raised by the increased subdivision of

[19] In an article in *These Eventful Years*, Vol. I.

Europe and the overtures and formation of fresh international combinations had the effect of tearing asunder former friendships. The break-up of the economic solidarity induced by collaboration in war-making set in motion what Sir Arthur Salter called an "immense centrifugal force of national separation" and left the nations with weakened mainsprings.[20] Problems were now weighed in individual scales, and those leaders who tried to be good Europeans were quickly elbowed off the stage by peoples impatient to turn inward to national reconstruction. It was time to call a halt to adventuring in the common weal and to do a little work on the homestead, for a legacy of social problems pressed for solution. Finally, the sharper contact of civilizations busied minds which had come to take it for granted that no colored race could object to be treated as an uncomplaining burden for the white man.

To all these problems, calling for solution in domestic terms, the victorious nations had to address themselves on the termination of their shoulder-to-shoulder association at Paris.

France's insistence on—and need for—reparations to lighten the French budget of part of the burden for war expenditure and reconstruction was coupled with her pressing and natural demand for military security while she repaired her disorganized economic fabric. The disconnection of the economic and financial ties with the United States and Great Britain, involving the drying up of credits, had the effect of giving a more anxious turn to her expectations from Germany.[21] Her accumulating budgetary deficits were slated for Germany to pay. Then she carried over into the peace the species of nationalism whose synonym is negative hostility, which she expressed at the slightest evidence of non-coöperation

[20] Interesting surveys of the triumph of international coöperation wrought by association in war and of the reaction from it after the peace are given in Germain Calmette, *Recueil de Documents sur l'Histoire de la Question des Reparations,* and Salter, *Allied Shipping Control.* The war proved a hot-house for the economic organization that transcended the eighteenth century concept of national independence and sovereignty.

[21] The connection that the Allies during and after the Conference sought to create between reparations and the war debts, and that at one time was hoped might lead to America's official assumption of the premier rôle as Germany's creditor, might be cited here; but as it is dealt with in the discussion on debts, the reader is referred to that chapter, pp. 402 ff.

in Germany. Clemenceau gave it a crisp expression when he said on October 2, 1921, "In the pitfalls of peace, as in the upheavals of war, France above all!"—the voice in another language that called for "*Deutschland über Alles!*" The French could not easily soften an attitude of mind which had been hardened by the hatreds of a protracted war. To a section of the people security came to mean the maiming of Germany to the point of impotence. Said Tardieu: "We cannot accept the risk of German industrial revival, therefore we must compel her to pay mountainous indemnities."

It was necessary to wait until this fever had abated before French opinion could express itself in support of a sane dispassionate policy. The tragedy of international jealousies, it has been said, is the conflict between right and right according to the vision individually manifested in the countries concerned. Although rights have a way of getting entangled with national expediency, the point remains, and it is only proper to ponder it in any appreciation of the conditions in Europe leading up to the Dawes Plan.

Great Britain had her problems as well as France; equally pressing, equally individual. These were connected with the necessity to British economy of seeking a return to unrestricted commerce and the rehabilitation of London as a clearing house of world trade. Dependence on unfettered trade relations, together with the confidence born of an island existence, has impregnated Great Britain, as André Siegfried illuminatingly points out, with an international and economic sense which seems unreal to less isolated and yet more domestic France. It was this sense that inspired Lord Castlereagh after the Napoleonic wars to say, "No arrangement could be wise that carried ruin to one of the countries between which it was concluded." It was written into the settlement of 1816, but was subordinated a hundred years later at the Conference of Paris to French urgencies, though spasmodically it came to the surface, especially toward the end of the discussions, with a disconcerting but unsustained emphasis. That Britain's real economic interests did not altogether dictate British policy at Paris may probably have been due to the predominance of British imperial interest in the territorial re-shapings indulged in by the Conference.

With both the war and the peace-making over, the British were faced with the need for their peace-time European markets; a need that became more pressing as time went on, and brought about a revulsion of feeling in favor of Keynesian economic thought, which demanded the lightening of the burden on Germany as the best insurance of trade recovery. France remained at bottom a champion of the Treaty, not as Tardieu says as a "propylaeum," but as something integral, which is what Poincaré demanded. What could that convey but dismay and irritation across the Channel? Germany strained herself almost to disintegration in the effort to fulfil the London Schedule; yet Germany was the corner stone in Britain's export structure in Europe before the war, and had to be restored if British factories and workers were to regain their activity. At the outbreak of the war Germany had become the central support around which Great Britain and the rest of the European nations grouped themselves. This is evident from the figures of German trade. In 1913, 52 per cent of German exports were disposed of in western Europe, and about 24 per cent in central, eastern, and southeastern Europe, with Great Britain as Germany's best, and Germany as Britain's second-best, customer.

On the theory that policy is moulded by tradition, perhaps Britain's change of heart after the peace had its subconscious prompting in the historic rôle she has played in continental European affairs of resisting the rise of potential hegemony. In the early years of the peace France seemed to be striving for predominance through her accrual of "client states" in central Europe and the Balkans.

Italy had undergone a similar *volte face*, the more complete in her case because of the anxiety she showed at Paris to widen the well of reparations so that she might have ample room to dip into it. The Italian change of approach to the reparation problem was conditioned as naturally on economic necessities as was Great Britain's. Unhampered commercial intercourse constituted an irresistible argument to a country so poor in the raw materials essential to industry. Italy therefore demanded ready access to German markets, since the crippling of those markets could easily

be translated into the starving of her exuberant population. Then she had her own political preoccupations, ascendancy on the Adriatic being the most vital.

Renewal of American Interest in Reparations.

Save for one or two revelations of interest, the United States throughout this long period of discord maintained the distance and detachment which Washington recommended as a counsel of American conduct in the agricultural days of 1776. One departure occurred after the first enforcement of "sanctions" on March 8, 1921. Under the impetus of this action, the Reparation Commission developed a peremptoriness over the collection of the values of the 20,000,000,000 gold marks set down for payment before May 1, 1921. A week before that date, Germany, rendered desperate by the hardening of the heart of the commission, transmitted proposals to the United States agreeing to acknowledge a debt of a present value of 50,000,000,000 gold marks and to pay this sum in annuities up to a total of 200,000,000,000 gold marks. Viewed in all its details, this offer was a great improvement on the one made prior to the signing of the Treaty, which would have involved the payment of only 100,000,000,000 gold marks over a term of years, an offer that then had a cash value of about 35,000,000,000 gold marks.

The fresh offer had its inspiration in President Harding, who, in refusing a German appeal to arbitrate the dispute with her creditors, declared his willingness to examine any new proposals and, if they seemed suitable, to pass them on to the Allies. On May 3, 1921, the Allies rejected the German plan, and two days after, agreed to the imposition of the London Schedule of payments, which, when closely examined, appeared not much different from the German offer. On the face of it, it was very dissimilar, the apparent dissimilarity being created for political purposes, in the name of which most of the reparation plans were rendered obscure. This was due to the conception of "present value," meaning the sum which over a certain period of time and at a given discount or rate of interest would yield the total obligation called for. The various plans were never clear in regard to present

value, even when in other particulars they seemed in harmony, and some of the schedules were so confusing as to constitute arithmetical puzzles. Misunderstanding over the ramifications of the fact that $100 due, say, in 1950 has a very different value today extended to some of the leading politicians in charge of negotiations. It gives point to the observation of Paul M. Warburg[22] that "a fair and practicable solution of the problem of restoring European finance could have been reached nine years ago if on all sides payments with respect to war debts and reparations had been considered as payments on account of principal, instead of permitting cumulative interest tables to confuse the issue." When disentangled from the usual strings, the final determination of the debt at 132,000,000,000 gold marks, worked out according to the London Schedule, gave a current value of 50,000,000,000 gold marks. Therefore, quite apart from the accompanying threat, there was every reason why the Germans, after committing themselves in despair and under the duress of "sanctions" to the offer they had made through President Harding, should accept the London plan, once they understood it in its real implications.

The second case of American action came in the form of the participation by American banking interests in the Loan Committee of the Reparation Commission. Germany had never been given an opportunity to reëstablish her economy after the war, and this fact, coupled with her exertion to pay the first instalment under the London Schedule, caused her economic linchpin, the currency, to show progressive weakness. Under the stress imposed by the attempted fulfilment of the creditors' demands, the Germans were rapidly losing the will as well as the capacity to redeem their liabilities. It might be contended that the will had never been in evidence in Germany. But enthusiasm for the task of paying the penalty of defeat is not to be expected from human nature. The point is that since collaboration was not invited, it was too much to ask the Germans to assist in the realization of an aggressively unilateral policy which was directed at the forcing of German submission along a course that economic truth ad-

[22] *New York Times*, January 19, 1928.

vertised as leading to bankruptcy. A nation will not willingly commit a particular form of suicide at another's behest, although it may seek other means of self-destruction as a way of escape. Privately and commercially, the Germans began frantically to put their money into foreign currencies, the firms because they needed some stable medium for their working capital, and private persons because the sag in the currency was so alarming as to threaten complete obliteration in real values. The "flight from the mark," as the movement came to be called, had its origin in the sapping of confidence in the ultimate ability of Germany to bear the load of reparations, and its impetus in the *laissez faire* attitude of the German Government. So rapid was the drop that it halved tax returns between the time of assessment and the time of collection; deficits occurred in the budget, and all that the government could do in the absence of credits was to call upon the printing press to exercise its devastating function, and to sell the marks thus created in a market dominated by speculation for the foreign exchange requisite in the fulfilment of the reparation liability. As the mark plunged downward, the harassed Allied statesmen came to gain a "faint indirection" of the importance of safeguarding German currency; an international loan seemed the only way to restore German finances. J. Pierpont Morgan was the American representative on the Loan Committee, and at the first meeting on May 24, 1922, he made it clear that the prerequisite of American interest in the loan proposed was a thoroughgoing settlement of reparations. In the American mind the time had passed for half measures.

The French Government under Poincaré immediately took alarm; here was another effort to damage the Treaty, and as such it must be resisted. With the French still in agitation, the Loan Committee felt there was nothing before them but an indefinite adjournment; but prior to breaking up they issued a statement on June 10, 1922, which should have provided much food for thought in the Allied countries but which had to lie fallow until its fundamental truth had been demonstrated by the logic of events. The committee said:

If the Committee have felt obliged to be discouraging as to the prospects of a loan in the present position of Germany's credit, they desire to be no less emphatic in stating their conviction that, provided the necessary conditions for the revival of her credit can be realized, substantial loans could be successfully floated in all the main markets of the world. They are deeply conscious of the immense assistance to the economic recovery of the whole world which would be afforded by the gradual conversion of the German obligation from a debt to governments into a debt to private investors, based, like other public debts, not upon external functions, but upon the general credit of the debtor country.

Sweet reasonableness, however, could not prevail in the circumstances of the times; notwithstanding the admonition, the French were pushed by their own domestic troubles toward a policy that had its consummation in the occupation of the Ruhr. Even the Belgians at this time could not keep the pace set by Poincaré to the tune of "I demand the strict fulfilment of the Treaty of Versailles," which he reiterated in "Sunday sermons" throughout this period. Delacroix labored unceasingly to bring the Loan Committee together again, but when Pierpont Morgan pointed out that his coöperation depended upon general recognition of Germany's need for an extended moratorium, Poincaré, supported by President Millerand and fortified by political successes in the Near East, dropped abruptly any interest he may have shown in the resumption of the committee's deliberations. Thus was Germany deprived of the help she sorely needed to energize her economic life and to produce reparations. A moratorium, which was now extended from time to time, was not of much use to Germany without the credits required for rejuvenation, and Berlin officially threw up the sponge in November, 1922, declaring that Germany was too anaemic to continue payments.

German Payments before the Dawes Plan.

What did Germany actually pay during this time of turmoil prior to the adoption of the Dawes Plan? Nobody can say: first, because estimates by the authorities were rendered divergent by political animosities, and, secondly, because values in terms of

money were inconstant. In 1921, trade depression reduced the values of goods surrendered much lower than the values envisaged when the figure of 20,000,000,000 gold marks, which was supposedly the measure of values for surrender, was arrived at. Up till May 1, 1921, when Germany should have remitted this sum in goods, the Reparation Commission declared that they had actually received reparation values amounting to only 2,600,000,000 gold marks. Against this sum, the expenses of the armies of occupation were to be a first charge. By 1921, these had reached 2,100,000,000 gold marks for the French, Belgian, and British armies, and over a billion gold marks for the American army. Receipts on reparation account were therefore not sufficient to pay even for the costs of occupation; in consequence, the American bill was merged into the Dawes scheme of payment by means of a decision reached on January 14, 1925.[23] By 1923, at the time of the occupation of the Ruhr, payments on reparation account, according to the commission's figures, amounted to 8,000,000,000 gold marks, 1,800,000,000 gold marks in cash and the balance in materials.

Naturally these figures did not correspond with the German figures. Dr. Simons at the London Conference in March, 1921, had valued deliveries at 20,000,000,000 gold marks; Dr. Schroeder went even higher, and placed the total at 37,000,000,000 gold marks. At the later date, the beginning of 1923, the German Government's assessment was 45,000,000,000 gold marks, as compared with the figure of 8,000,000,000 gold marks furnished by the Reparation Commission. It is impossible to compare these figures, since some estimates do not distinguish between "restitution" and "reparations."

1919 and 1871.

The difficulty of appraising the value of things restored and cessions and similar credits makes it impossible intelligently to present a comparison between this burden on Germany and the French burden of 1871. In any case, detailed comparison would be

[23] Under the army cost agreement of May 25, 1923, which was superseded by the Paris agreement of January 14, 1925, the United States received $14,725,154. Under the Paris agreement she had received $13,057,939 out of Dawes annuities by September 1, 1927. The outstanding amount due the United States Government was then $220,083,308.

useless, for the reasons that populations were different, the wars were fought to different stages of exhaustion, the purchasing power of gold was much less in 1919 than it was in 1871, and the economic settlements were rendered comparatively simple in 1871 because only two parties were involved and because these two parties had not then reached the stage of economic advancement which in this modern industrial world is making economic units out of groups of nations. The war indemnity paid by France in 1871, apart from enormous requisitions and the upkeep of the army of occupation, was about 4,000,000,000 gold marks; Germany's liability as fixed by the Reparation Commission was thirty-three times larger. According to the Institute of Economics at Washington, the tangible values surrendered by Germany in fulfilling Treaty obligations of all kinds down to September 30, 1922, represented a loss to Germany, whatever the values realized by the creditors, of about 25,000,000,000 gold marks;[24] or about half of what came to be a generally accepted figure that Germany could pay, namely, 50,000,000,000 gold marks. The total of Germany's actual payments had already become in 1922 five or six times as great as the 1871 indemnity, viewed solely in its arithmetical dimensions. The great difference between the two sets of conditions was that whereas in 1871 France's credit on the international financial market remained perfectly sound, Germany's credit became and was kept non-existent; and this was the crux of the problem. Germany was economically as well as militarily defeated in 1918; France in 1871 was only militarily defeated, and the difference had its reflection in the credit position of the vanquished Power. In 1872, so eagerly did the nations coöperate with France in the payment of her indemnity that in two days, July 28 and 29, "the world offered France the loan of a capital of forty-two milliards[25] 641 millions" of francs;[26] a substantial part of which, ironically enough, came from Germany. It is also a fact that France showed far more spirit after 1871 in paying her indemnity than Germany did prior to the Dawes Plan, although it must be

[24] Moulton and McGuire, *Germany's Capacity to Pay.*

[25] Billion in American usage.

[26] Simon, *The Government of M. Thiers* (trans.), p. 223.

noted that French incentive was derived in part from German occupation of considerable French territory.

What would Germany have done if she had been the victor in 1918? Would she have been as intransigent as France proved to be? It is a pertinent inquiry, and one that finds a partial answer in the treatment meted out to Russia and Rumania by the treaties of Brest-Litovsk and Bucharest respectively. The latter instrument obliged Rumania to deliver to Germany her entire surplus, and to yield to a company controlled by the German Government the right to operate all her petroleum wells for 90 years. The treaties with Ukrania, Poland, and Finland were little less harsh, and the whole scheme of Germany's attitude toward her vanquished indicates that, had the scales turned in her favor, she might have imposed a Carthaginian peace upon her principal enemies. This would also have been quite in accordance with the precedent of 1871. Five billion francs was a huge sum in those days, and it was plainly the German intent to hamstring France for a generation. "The five milliard did not accord with the charges, direct or indirect, of the German Exchequer, and went beyond the total of all the losses experienced, even when the reëstablishment of our military was therein included."[27] Bismarck was chagrined at France's wonderful recuperation, and the history of that period up to 1875 shows that his often-quoted remark, "Next time I hope *we* have to pay an indemnity," was merely a *façon de parler;* that the Iron Chancellor's policy was to "bleed France white" at the first opportunity. All of which shows, as Artemus Ward would say, that there is a good deal of human nature in man.

The 1871 experience provided the warning that under our modern economic system the enforcement of heavy transfers of wealth by way of indemnity has the inevitable effect of adding to the economic power of the payer at the same time as it impedes the recovery of the recipient. The assumed political expediency and the economic inexpediency of making the defeated pay have still to be reconciled, and the difficulty in pre-Dawes Plan years impelled the creditors to side-step its implications and to keep Germany in thrall.

[27] Wolowski, *Journal des Economistes,* December, 1874.

THE ENTHRONEMENT OF COMMON SENSE

It seemed necessary to allow events to reach a stalemate, terrible though that was in terms of human suffering, before an atmosphere could be created favorable to the scientific examination of reparations. As General Dawes put it when he arrived in Paris to inaugurate the work of the Dawes Committee, "If France were not in the Ruhr, we should not be here." Even J. M. Keynes is constrained to admit "One feels indeed a certain inevitability—that the various stages, however imbecile and disastrous in themselves, had to be passed through."[28] The proposal to appoint a committee of experts with American participation originated in the United States. According to Lloyd George,[29] "the overture was first made to France in October, 1922, by the Secretary of State [of the United States]. France turned it down. It was then communicated to our ambassador by the Secretary of State. He made a speech in December, 1922. He made that speech because nobody took any notice of the communication. He made that in despair."

The speech referred to by Lloyd George was delivered by Secretary Hughes at New Haven on December 29, 1922, and contained the proposal rejected by France when submitted through diplomatic channels. This manner of publicly airing American views on reparation policy revealed the concern of America in the troubles of Europe, and seemed to forecast an American return to the stage of affairs after the abrupt exit marked by rejection of the Versailles Treaty. That concern had been intensified by the economic depression in the United States in 1920 and 1921, a depression traceable in part to the economic disturbances in Europe, which curbed European buying power for American goods. Sales were abundant, but they were maintained on open account, since Europe had little ready cash, and the result was that the lack of settlements helped to precipitate a commercial crisis in America with widespread repercussions. Neither the manufacturers of the East nor the farmers of the Middle West could believe with a certain American ambassador that the United States was "damned

[28] *The Nation and Athenaeum*, Jan. 7, 1928.
[29] House of Commons, January 15, 1924.

well out of the whole mess." The shoe was beginning to pinch too much to make it tolerable even as a political indulgence.

Evidence of a new intimacy of outlook came in the agitation for the calling of an international economic conference; and though this was not taken up, President Harding on December 24, 1922, admitted that "the European situation has been given most thorough and thoughtful consideration for many months." Two days after, the Hughes speech gave point to this official preoccupation, showing that Washington wished to attend to the heart of the matter instead of subscribing to any general discussions on European reconstruction.

The idea remained buried in European minds while France and Germany fought their "sort of war" over the occupation of the Ruhr. The separation of its economic nerve center caused widespread confusion in Germany, which political troubles, threatening chaos and disintegration, intensified. Between June and October, 1923, the mark dropped from 100,000 to the dollar to the global figure of 1,000,000,000, and these gyrations spelled the collapse of the monetary system, since the mark in this state could hardly perform its functions as a medium of exchange and as a measure of value. Real credit, which is confidence, fled Germany with the marks which the industrialists and the wealthy had exported. Other liquid assets were sunk into extensions of plant, freezing the remainder of Germany's mobile capital. Windfall profits were reaped by paying off mortgages and debts in virtually worthless currency. The government saw its bonded indebtedness in process of disappearance, while the *rentier* watched his income, either in the form of savings or inheritance, dry up before his eyes. The workers suffered by reason of the time-lag in wage adjustments to price increases. Prices might advance even while the housewife was waiting in a queue for her turn to be served by a shopkeeper. Herr Grassmann, a representative of German labor, speaking before the Dawes Committee, stated that the German working classes could not withstand another period of inflation. They appealed to the world for a stable currency "which would render it possible for them to buy something with their wages even four weeks after they had received them."

In its effect on the German economy, the virtual elimination of government indebtedness did not make much difference, for it was really a case of robbing Peter the bondholder to pay Paul the taxpayer, but the débâcle caused grievous maldistribution of burdens, and these the Dawes Committee tried to correct. Nor was the base of German economy, its plant, damaged; rather it was rendered potentially more powerful by its absorption of improvements through the instrumentality of the liquid assets which had been frightened into this form of immobility. The "sort of war" came to an end on September 26, 1923, Germany abandoned passive resistance, and introduced a currency scheme conceived by Dr. Helfferich. Something had to be done to perform the monetary functions vacated by the paper mark. A new unit, the rentenmark, rose phoenix-like from the ashes of the paper mark; that it attracted the confidence of a people riotous and in a semi-panic was not the least of the remarkable phenomena produced by the post-war history of Europe. It marked the end of *laissez faire* by the German Government which, in accordance with the provisions of the Dawes Plan, eventually agreed upon the issue of another unit, the reichsmark.[30]

The preliminary currency housecleaning had no effect on reparations. During the occupation of the Ruhr, no deliveries were made of Germany's own volition, and, since all Germany's remaining resources were tied up to the subsequent rehabilitation of her currency, there was no possibility of restarting deliveries.

At the same time, a great step was taken in the direction of economic revival by the concurrent divorce of the Reichsbank from the German treasury. The depreciation of the old mark had been so rapid that the revenue of the Reich, reckoned in gold marks, was negligible; nevertheless, costs in real values remained unaffected, with the result that the budget showed a curiously one-sided aspect. How, then, was the government financed? By note borrowings from the Reichsbank in return for short-time bills. Depreciation ensued, and was furthered by a concatenation of

[30] The reichsmark, like the rentenmark, was made equivalent to 1,000,000,000 paper marks. Hereafter, all figures of German currency will be in reichsmarks, unless otherwise stated.

circumstances, chief among which was the necessity of using these depreciated notes for the purpose of buying foreign exchange to pay reparations. Frenzied finance, indeed! The end of this *régime* spelled the abatement of the fever, but it did not bring on new economic life. Physically perfect in parts though it was, the German industrial structure had to be reinvigorated and nursed back to economic health and strength with foreign help and by means of other agencies provided by the Dawes Plan. Under the capitalistic *régime,* real wealth means nothing if fenced off from a common system expressed by the circulation of a common money token.

Britain held aloof from the Ruhr imbroglio, though she consistently proclaimed its illegality, and even went so far, according to the President of the Reichsbank, Dr. Schacht, as to promise future coöperation and credit to Germany. These whisperings of a new attack on the problem of reparations along the lines laid down by Mr. Hughes undoubtedly gave the Germans fresh heart to try to put their country in order with the resources remaining to them. The day of gigantic and immediate forfeits seemed to be coming to an end. Meantime the British awaited a favorable opportunity to urge a reconsideration of reparations; this occurred after the assumption of the British premiership by Stanley Baldwin. It is a commonplace of diplomacy that a change in contacts often smooths over situations seemingly irremediable when in the hands of persons whose antipathies have been exacerbated to the breaking point. Bonar Law had described the reparation problem as "almost hopeless"; fresh to the subject, unconnected with previous controversy, Baldwin succeeded in reëstablishing conversations with Paris. He it was who prepared the ground for an appeal to the Hughes proposal. Poincaré, however, wished to severely restrict the activities of the proposed expert committee, and his susceptibilities threatened to frustrate British-American efforts, which then had to turn to the Reparation Commission. The Reparation Commission secured what diplomatic exchanges had failed to bring about, and the subsequent accord brought into existence two expert committees, one to consider the means of balancing the German budget and the measures to be taken to stabilize German

currency, and the other to investigate the amount of German capital with the view of bringing about its return to Germany.

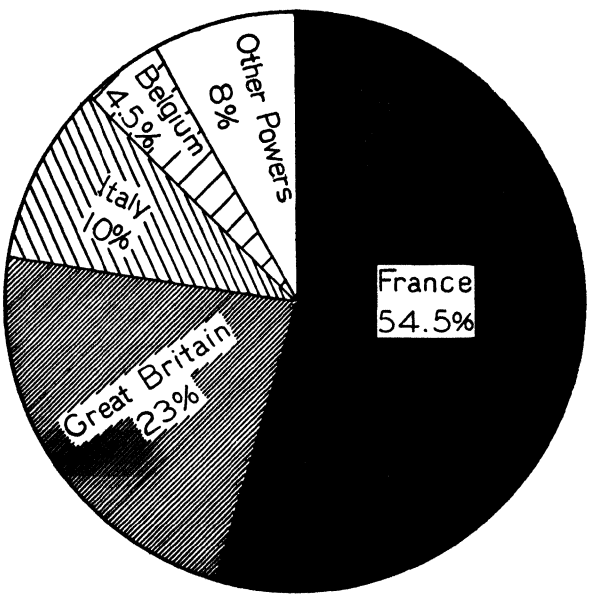
As it was the first committee, commonly named after its chairman, General Charles G. Dawes, that constituted the further history of reparations, the second committee did not receive the attention their labors deserved. Presided over by Reginald McKenna, the British banker, they revealed that the total amount of every kind of German capital abroad was 6,750,000,000 gold marks; not a large amount, but some measure of the extent of the "flight from the mark" when we bear in mind that the war had cut off Germany's commercial connections and had deprived her of the greater part of her overseas investments. The return of this mobile capital was provided in some measure by the machinery of the Dawes Plan.

The American representative associated with General Dawes on the first committee was Owen D. Young, and Henry M. Robinson was later coöpted from the second committee. Official America's second advent to Paris renewed German hopes of a thoroughgoing readjustment of reparations. "Thus after a long and devious journey," says Bergmann, "the object which the authors of the Treaty of Versailles had in mind, i.e., the settlement of reparations under American leadership, was finally reached." This, at any rate, had been the hope of the German people. Other opinion did not envisage settlement; if there was any optimism, it was "so well under control as to amount to a chilling lack of confidence," in the words of an observer. Well it might be, with problems so ramified and the committee's terms of reference to meet them so restricted. Poincaré had said, "France will not accept that a committee of experts make any changes in the amount of the debt as fixed on May 1, 1921." In official French minds, Germany's capacity to pay was still a "dangerous sophism," notwithstanding the fact that it had come to be the measure of settlement of the general indebtedness arising out of the war. Such an attitude did not presage more than a tinkering by the new committee, but those who, like Bonar Law, were covered with what Dr. Johnson would have called "inspissated gloom" by the vicissitudes of reparations, did not take into account either the occasion

or the caliber of the men chosen to meet it. Something had to be done to recover a unity of thought in Europe, and here were the men who, being neither doctrinaire nor entangled in the politics of reparations, seemed most likely to aid in its promotion. This was the impression produced by the frank opening speech of General Dawes on January 14, 1924. He referred to the "impenetrable and colossal fogbank of economic opinion," whose premises of fact had changed so rapidly as to make the bulk of them worthless. "Common sense must be crowned King" . . . "Fifty medical experts, gathered around the bedside of a dying patient, would give fifty different estimates of how far he could run if he got well." They had been listening so far to the medical experts; let them first help Germany to get well by devising a system for establishing Germany's currency so that "they could get some water to run through the budget mill." The committee had to exercise ingenuity in framing a constructive proposal on the basis of their limited charter.

After working assiduously for four months, the committee produced their plan on April 9, 1924. It provided an imposing volume of 124 pages and proved to be an exhaustive summation of the economic experience gained from reparations, the deductions from which were applied to the fulfilment of the twin purpose of rejuvenating Germany and collecting reparations on such a basis as to leave the revived German economic structure undamaged. "The amount that can safely be fixed for reparation purposes," says the Plan "tends . . . to be the difference between the maximum revenue and the minimum expenditure for Germany's own needs." —seemingly a commonplace but in truth a lesson from past Allied misconduct. To be workable, the system had to be bilateral, with the principle of arbitration firmly attached to it, and these advantages over the Treaty of Versailles helped considerably in gaining general adhesion for the Dawes Plan. The Plan was accepted in its entirety, both by the creditor states and by Germany, at the London Conference, July-August, 1924. Its application required much organization, providing for a network of controls and machinery and legislation in Germany, but all parties got the scheme under way with the minimum of friction. Poincaré's displacement

by Herriot in the French premiership accounted in great part for the expeditious manner in which the London Conference legalized the Plan and for the subsequent French withdrawal from the Ruhr. Thence onward, France made great strides in coöperating with Germany. When Poincaré returned to the premiership, he concentrated his attention on domestic affairs, leaving Briand at the Foreign Office comparatively unfettered to adopt for France an outlook more in consonance with the interests of European reconstruction.



Percentage share of creditor states
in Reparations from Germany.

Did the Plan supersede the reparations clauses of the Treaty of Versailles? The question is often asked by those in whose minds the machinery of the Dawes Plan seems portentous enough to outweigh its authority. The answer is negative; the Plan came to have the nature of a sort of supplementary contract, result-

ing from the application of Article 234 of the Treaty,[31] and necessitated by the failure to extract reparations. If it did run athwart any detail of the Treaty, the transgression had to be made in order to make the Plan a workable scheme and to relieve the Treaty itself of economic double-mindedness. The committee themselves tried to insure a new modus by insisting that their report be regarded as an indivisible whole, to be put into operation or rejected in its entirety. They were convinced of the necessity of "some kind of coördinated policy with continuous expert administration in regard to the exchange," if maximum reparations were to be obtainable.

The New Administration of Reparations.

The application of the new scheme, bringing into effect an entirely new set of administrative machinery, has curtailed the activities of the Reparation Commission, which, however, though a reduced and routine body, is still charged with ultimate responsibility. The principle of unanimity in decisions of the commission has been extended, and, in addition to the establishment of arbitration in the event of conflict, it is provided that any member may appeal against a majority decision to an arbitration commission, whose president must be an American citizen. In the case of wilful default by Germany, a new appointee, an American citizen, must be called in, and a unanimous decision of the commission must be submitted to the creditor governments for action. The danger of interference by a single Power has practically been eliminated.

The Reparation Commission was thus reorganized to include an American private citizen, who, though not responsible to his government, was elected to full membership so that he could take part in deliberations on any point relating to the Plan. The present representative is F. W. M. Cutcheon. In this way, the commission has come to have the balance originally provided for under

[31] Article 234 reads:

The Reparation Commission shall after May 1, 1921, from time to time, consider the resources and capacity of Germany, and, after giving her representatives a just opportunity to be heard, shall have discretion to extend the date, and to modify the form of payments, such as are to be provided for in accordance with Article 233; but not to cancel any part, except with the specific authority of the several governments represented upon the Commission.

the Treaty. Technically the Plan organization is subordinate to, and its officials in great part are appointed by, the Reparation Commission, but since most of the officials carry out duties under agreements between the interested parties, the subordination is more apparent than real. The organization head is: Agent General for Reparation Payments, appointed by the Reparation Commission; Coördinating Agent between the Commission and the Plan commissioners; member and chairman of the Transfer Committee; Receiver of Payments from Germany. Owen D. Young was Agent General until November 1, 1924, when he was succeeded by S. Parker Gilbert, Jr. The Transfer Committee consists of the Agent General for Reparation Payments as chairman, and five members appointed by the Reparation Commission after consultation with the non-German members of the General Board of the Reichsbank and through them with the central banks of the countries concerned. The committee receives funds from the Agent General, applies bank balances to payments for deliveries in kind, converts bank balances into foreign currencies or invests them, and remits the proceeds pursuant to the direction of the Reparation Commission. The first American representative on the Transfer Committee was Joseph E. Sterrett; Pierre Jay was his successor, and now occupies the post. The other four are British, French, Italian, and Belgian nationals.

For the Reichsbank, the German president of the bank, Dr. Schacht, is chairman of the German Managing Board and the mixed General Board. The General Board consists of fourteen members; seven are Germans and one each of British, French, Italian, Belgian, American, Dutch, and Swiss nationality. The members of the German Managing Board are appointed by the president with the approval of three-fifths of the General Board, including six foreign members. The Bank Commissioner, M. Bruins, a Dutchman, a member of the General Board, has the duty "to enforce the provisions of the law and the statutory regulations relative to the issue of notes and the maintenance of the bank's reserves which guarantee that issue."

The German Reich Railroad Company is a 26,000,000,000 gold mark corporation which holds the former state railroads. Of its

valuation, 11,000,000,000 gold marks is a reparation asset. There is a trustee of railroad bonds, a Belgian, and a railroad commissioner, a Frenchman, whose duties are those of inspection, with a right to receive all reports on operation and finance and all proposals for changes in tariff, etc. If the bond service is in jeopardy, he has powers appropriate to the circumstances. The board of directors numbers eighteen, nine appointed by the German Government and nine by the trustee of railroad bonds. The general manager is elected by this board.

The German Government provided toward reparation 5,000,000,000 gold marks of debentures of industrial concerns guaranteed by itself. These are in the hands of the Trustee of Industrial Debentures, an Italian. For managing the issue the German law established the Bank for German Industrial Obligations (not in reality a bank, but merely a conduit for payments by the individual enterprises to the credit of the Agent General) which has a German board of directors and a council of inspection. The latter consists of fifteen members, the German president included. Of the fourteen others, four are appointed by the non-German members of the General Board of the Reichsbank, three by the Reparation Commission, and seven by the German Government, three of these representing the government and four selected from the officers of affected industries or their shareholders.

As security for the contributions from the budget and as additional security for the reparation payments of railroads and industry, the German Government pledged the proceeds from custom duties and from excise taxes on alcohol, beer, tobacco, and sugar. The commissioner of these latter controlled revenues is a Briton, Sir Andrew McFadyean, formerly of the Reparation Commission. He is an appointee of the Reparation Commission. During the first two years Germany made no budgetary payments, so that the controlled revenue income was simply reported. Beginning with the third year, one-tenth of the annual estimated receipts was paid to the commissioner, who remits five-sixtieths of this amount to the Agent General, retaining one-sixtieth to form a reserve fund eventually to amount to 100,000,000 gold marks,

after which the monthly payments drop to one-twelfth of the annuity. The commissioner has extensive powers in case the payments are not forthcoming according to schedule.

After satisfaction of prior charges, such as the service of the External Loan of 1924 and the cost of the various controls, reparations are distributed according to percentages fixed at the Spa Conference as modified by the agreement of January 14, 1925. By this latter agreement Belgium agreed to a reduction of her share from 8 per cent to 4.5 per cent. This reduction in percentage operates in full discharge, as between the Allies, of Belgium's obligation to repay to the other Powers the sums received in priority before the introduction of the Plan. The 3.5 per cent share thus released was allocated to Great Britain and France in the proportion of 52:22. The shares now stand at: Great Britain, 23 per cent; France, 54.5 per cent; Italy, 10 per cent; Belgium, 4.5 per cent; other Powers, 8 per cent.

WHAT IS THE DAWES PLAN?

THE keynote of the Report is struck in the sentence: "In the last resort the best security is the interest of the German Government and people to accept in good faith a burden which the world is satisfied to be within their capacity, and to liquidate as speedily as possible a burden which is, and should be, onerous." The phrase "and should be onerous" might be emphasized, since there are those who contend that the authors of the Plan had in mind letting off Germany lightly. On the contrary, the committee reaffirmed the Treaty dictum that the burden of taxation should be at least as heavy in Germany as in the Allied countries. In General Dawes's words, this was "a just and underlying principle." Any limitation upon this principle, if there was one, must be a limitation of practicability and general economic expediency in the interest of the Allies themselves. It is upon its working out that the success of the Dawes Plan rests.

The first essential to the imposition of reparations had come to be recognized as the recovery of credit, and the Dawes Committee

aimed throughout their report at the restoration of German credit both internally and externally for the purpose of recovering the maximum debt, not of imposing penalties. Only with this restorative aid could Germany become a natural creditor nation and thus pay her debts. The Plan mechanism set up guarantees in the shape of a protected system, whose workability was insured by means of the concurrent opening of the doors of international credit to Germany.

Germany had become an economic skeleton from the point of view both of real and of financial credit. The first step was rejuvenation so that Germany might be energized with the capacity as well as the will to pay reparations. Thus the committee insisted on the restoration of the fiscal and economic unity of the Reich and the removal, or modification, of existing sanctions tending to hinder German economic activity. The recognition of these requirements led the committee in due sequence to the enumeration of measures destined to protect the German economy, particularly in its relation to the exchange. These measures were intended to secure currency stabilization and fiscal reform. The committee had helped the German Government to keep its new currency at gold parity while they were in the process of gestating their report. To insure currency equilibrium, they recommended the reorganization of the Reichsbank. An ample gold reserve was subsequently provided in 1924 by the flotation of a foreign loan sufficient to realize 800,000,000 gold marks.

A bid was made to arouse the interest of the American investor in the resuscitation of Germany. The security was well defined; the Reparation Commission agreed to grant priority for the service of the loan over all reparation payments and charges on receipts held by the Agent General, including deliveries in kind and other remittances. The result was that more than half of the loan was taken up in the United States.

The loan service was made a specific charge on all payments provided for under the Dawes scheme, which payments in turn hold precedence over the preëxisting German debt. On Germany's part, the loan was a direct and unconditional obligation of the German Government, based upon all its assets and revenues; the

right was waived to create any prior or equal charge upon these revenues; and, finally, purchases of the foreign currencies necessary for service of the loan were given absolute priority of remittance over the funds for transfer in discharge of reparation. Part of the proceeds of the loan assisted in the foundation of the reorganized Reichsbank and part financed essential deliveries in kind and provided for army occupation costs in Germany, purposes that were necessary to bring into existence German interest in the success of the scheme alongside the latent pressure of the controls. The loan marked the beginning of a process of pumping credits into Germany in which America was to play a leading part.

The regulations of the bank were drawn up with minute exactness. In many of them, such as those with regard to reserves, maturity of discounts, and powers and status of the commissioner, the mind of the American representatives, used as it was to the workings of the Federal Reserve system, may be traced.

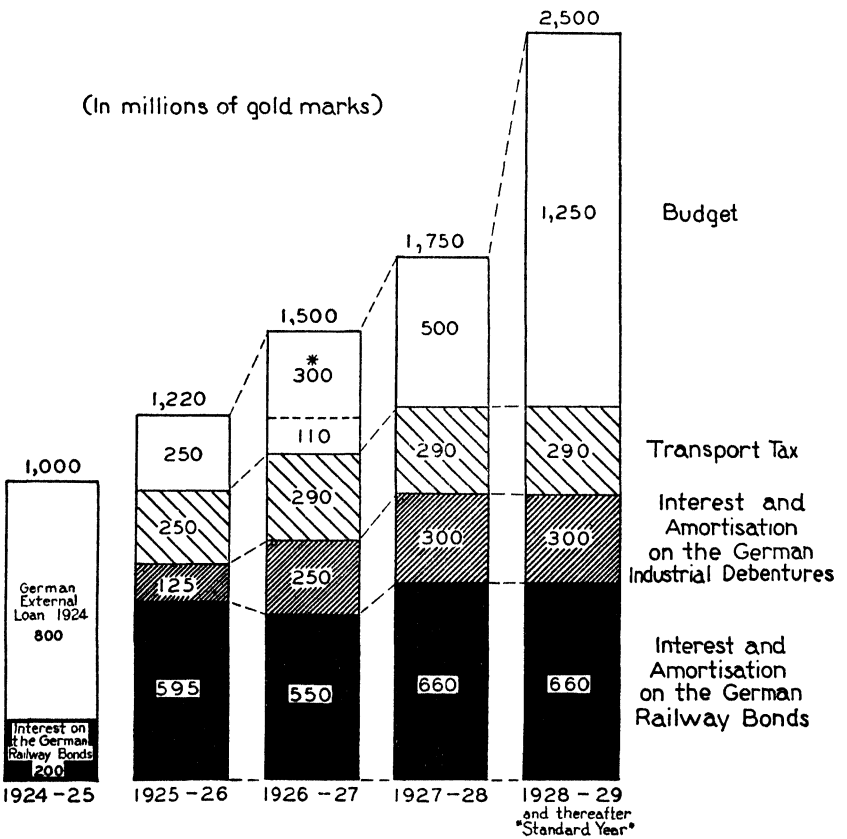
So the committee rebuilt the central pillar of German finance, helped Germany meet her first annuity payment, provided her with an adequate gold reserve through the promotion of the loan, and made provision for the issue of a new currency, the reichsmark, on a par with the old gold mark (4.2 to the gold dollar).

If for political purposes the committee could not afford Germany a complete moratorium, they could give her a partial moratorium, and this was accomplished by withdrawing all demands on budget resources for the fiscal years 1924-5 and 1925-6. To meet the calls on the budget beginning 1926-7, a redistribution of taxation was recommended to redress the maldistribution brought about by excessive inflation. It was suggested that the burden on the wealthier classes in the form of income tax had so far been inadequate and that existing assessments might well be reviewed and liabilities re-assessed on a gold basis; that a higher tax be levied on those who had benefited by the depreciation of currency by reason of the paying off of pre-inflation debts at low values; that the financial relations between the Reich, the states, and the communes be reorganized; that a larger revenue be secured from tobacco manufacture and sale; and that indirect taxes generally be increased, turnover tax reduced, and death duties raised.

This was the prescription for the recovery of the German economy. What was the program for fulfilling reparations from this revived economy? In addition to the budget contributions, it was suggested that the state railways be converted into a joint stock company. These railways, the total mileage of which is 34,000, were worth at least 26,000,000,000 gold marks in 1924, and profited from the currency débâcle by having their indebtedness practically wiped out. The committee took advantage of this situation, and made them contribute heavily to reparations, as well as to the benefit of the German budget. As reorganized under the Dawes scheme, on the capital cost basis of 26,000,000,000 gold marks, the company issued to a trustee appointed by the Reparation Commission 11,000,000,000 gold marks of first mortgage bonds, under German Government guarantee, carrying interest at 5 per cent per annum with 1 per cent for sinking fund. The capital consisted of 2,000,000,000 gold marks in preference shares and 13,000,000,000 gold marks in ordinary shares, all of which are owned by the government. Thus was the 26,000,000,000 gold marks of capital cost split up.

Toll was also taken of German industry. As we have seen, German industrialists had profited enormously from inflation, which helped them to defeat their creditors and to exploit their wage-earning fellow-countrymen. The charge took the form of government guaranteed first mortgage bonds to the amount of 5,000,000,000 gold marks, secured on German industry and bearing interest at 5 per cent, with a 1 per cent sinking fund charge. These mortgages are the individual obligations of the concerns levied upon, for delivery by the German Government to a trustee appointed by the Reparation Commission who collects the proceeds, hands them over for the benefit of reparation, and disposes of them as ordered by the commission. As elaborated in legislation, the scheme provided that all industrial enterprises having a working capital in excess of 50,000 gold marks were charged with a first mortgage to secure bonds valued in the aggregate 5,000,000,000 gold marks, payments being made into the new Bank for Industrial Debentures. Agriculture, transport, banking, insurance, and Reich and State enterprises were exempt from this charge.

Dawes annuities, which are graduated from 1,000,000,000 gold marks in the first year to 2,500,000,000 gold marks in the fifth or standard year, include "all amounts for which Germany may be liable to the Allied and Associated Powers for the costs arising out of the war, including reparation restitution, all costs of all armies of occupation, and clearing house operations to the extent of those balances which the Reparation Commission decides must legitimately remain a definite charge on the German Government, commissions of control and supervision, etc." If we recall the



How Reparations are raised by Germany under the Dawes Plan.

trouble occasioned by the uncertainties of Germany's current liabilities, this achievement of unifying indebtedness was not the least important contribution of the Dawes Committee toward the elucidation of reparation.

The total standard annuity, which commences on September 1, 1928, is 2,500,000,000 marks, but is subject to modification on two separate grounds. From the year 1929-30, modification may be permitted according to movements in a composite index of prosperity, an innovation somewhat resembling the ill-fated *Besserungsschein*. A further modification is permitted in the event of changes in the general level of commodity prices expressed in gold.

There are some French spokesmen, either animated by the desire to retain a political lever or obsessed by their regard of Germany as a miraculous pitcher, who contend that the sum set by the Reparation Commission, roughly 132,000,000,000 gold marks, is the capital sum of Germany's liability, and that the Dawes Committee did nothing to change it.[32] According to the London Schedule three classes of German bonds were created, A, B, and C. A and B bonds amounted to 50,000,000,000 gold marks. They were definitively described as the obligation of the German Government. The C bonds, amounting to 82,000,000,000 gold marks, were not to be issued until Germany's ability to pay them had been proven by the manner in which she met the service of the A and B bonds. Later on, Great Britain, in return for a wider arrangement including inter-Ally debt settlement, wished to limit the German liability to 50,000,000,000 marks, and this set the creditors at loggerheads. The Allied rift, exacerbated by Germain inability to pay according to the London Schedule, was the setting for the Dawes Committee, which, though prohibited from debt determination, showed in their conclusions and their schedule that the fulfilment of the liability as dictated in 1921 was outside their conception of German capability. This figure was neither confirmed nor modified; it was ignored.

[32] The Allied conception of the relation between inter-Allied debts and reparations must be taken into account in any understanding of the French attitude toward reduction of reparations.

To go back to the 1921 figure one would have to return to the London agreement which provided its schedule of payments. This was also ignored by the Dawes Committee in fixing the standard annuity at 2,500,000,000 marks. Let us take the 132,000,000,000 gold marks at an interest rate of 5 per cent as the starting point for computing the assessment on Germany. Interest alone would require an annual payment of 6,600,000,000 gold marks, without any provision for amortization. The Dawes annuity would therefore have to be more than doubled to meet any charge based on the 1921 bill. If this bill remained the capital sum of reparation, and if the Dawes annuity continued to be the standard payment, Germany at the end of 50 years would still owe the whole of the original debt, plus 25,000,000,000 gold marks arrears of simple interest at 5 per cent, and her indebtedness would be increasing *ad infinitum;* a proposition which, as Euclid would say, is absurd. The Dawes annuity yields no more than 2½ per cent or 3 per cent of the 1921 definition of the debt. Either the total debt must be scaled down to a sum possible of eventual liquidation out of the Dawes annuities, or the period of payment must be determined. Professor Harold G. Moulton, in *The Reparation Plan,* starting from the standard year payment of 2,500,000,000 gold marks, bases his computation of Germany's bill at 5 per cent for interest and 1 per cent for amortization over 35 years, and this gives a capital sum of 42,000,000,000 gold marks, or a cut by three-quarters of the 1921 figure.

The Transfer Committee.

The most interesting feature of the Plan machinery was the institution of the Transfer Committee. The Plan says "All payments for account of reparations will be paid in gold marks or their equivalent in German currency into the Bank of Issue to the credit of the Agent for Reparation Payment. This payment is the definitive act of the German Government in meeting its financial obligations under the Plan." It was the function of the creditors themselves to carry on the process of converting those funds into foreign currencies and transferring them to their own accounts. Hitherto the Germans had been given the responsibility of attend-

ing to both functions, raising the funds and transferring them to their creditors. The setting of the problem in its two "distinct though related" parts aroused much controversy among the commentators.

The idea did not originate with the Dawes Committee. It was borrowed from Hungary, where the League of Nations committee charged with that country's financial reconstruction had, on the suggestion of Sir Arthur Salter, inaugurated the system which the Dawes Committee expounded. If the stability of a currency is to be permanently maintained, they said, not only must the budget be balanced, but the country's earnings from abroad must also be equal to the payments it must make abroad. Reparations have to be taken into consideration in connection with Germany's payments abroad, since they have precisely the same effect on the German economy as any other kind of payment. "The funds raised and transferred to the Allies on reparation account cannot in the long run exceed the sums which the balance of payments makes it possible to transfer, without currency and budget instability ensuing." In other words, if the purchase of foreign exchange is not restricted to that sum available from a surplus in Germany's accounts, then settlements would call for an outflow of gold from the German treasury, which might result in the undermining of the credit structure and consequent currency depreciation of German money relatively to foreign money as expressed on the exchanges. To guard against this, the Transfer Committee in Berlin are endowed with wide powers, being assisted in their duties by the German Government and the Reichsbank, which engage to facilitate the Committee's work in connection with transfers, "including such steps as will aid in the control of foreign exchange." The Transfer Committee's powers include the suspension, curtailment, expansion, or regulation of remittances in accordance with the capacity of the exchange market to permit of them without threatening the stability of the German currency. If it is thought essential in the interests of the maintenance of German currency to suspend transfers, the committee may invest reparation funds "in bonds or other loans in Germany," to a maximum of 5,000,000,000 gold marks. When that limit has been

reached the "payments by Germany out of the Budget and Transport Tax would be reduced until such time as the transfers to the Allies can be increased and the accumulation be reduced below the limit named." The amount that can be absorbed by foreign exchange governs to a certain extent the amount of German payments under the Plan.

"Balance of payments" and "economic balance" are interchangeable phrases all-inclusive of a country's international account. Either is distinct from a "merchandise balance" or "balance of trade" in that the former phraseology includes all manner of services, such as shipping, insurance, interest payments, banking, and tourist expenditure, that comprise the invisible items in a country's economic operations with other countries. A country's economic balance is a veritable will o' th' wisp of economists in general; the Dawes Committee themselves say it defies calculation, but they add that even if it is impossible of exact determination, its limits are real, and are marked by the economic disturbances which it was the province of the Transfer Committee to guard against in their activities. It was in laying down the interrelation of currency, the budget, and the international balance of payments that the committee adjusted themselves to realities; a process which, as Coventry Patmore puts it, is the beginning of wisdom.

REPARATIONS STILL A PROBLEM

THE Dawes Plan did not pretend to solve the problem of reparation. It simply sought to put it in a new light—the light of economic science; and it provided "a settlement extending in its application for a sufficient time to restore confidence." Its chief virtue as such a bridge is that it assuaged temporarily the bitterness of reparation and prepared the ground for the comparative appeasement of Franco-German relations through the Locarno treaties and Germany's entrance into the League of Nations and the "commercial Locarno" contained in the Franco-German agreement of August, 1927. It also led directly to the restoration of the gold standard in Europe, or, as Reginald McKenna calls it, the gold dollar standard, and the resumption of lending activities by the

creditor nations. This aspect of the change that has come over Europe is put by George P. Auld in this way:[33]

> At the time of the Dawes Plan, the world system was out of gear. Sterling had passed or seemed to have passed, but the dollar had not yet arrived. The day when the dollar would be the determining factor in the operations of the world machine had not begun. The machinery of foreign exchange was trying to function without its partner, the machinery of credit. No genuine creditor rôle was being played by any nation in the world system.

Many political troubles still surround reparation—the "iron curtain" of the Rhineland occupation and repeated excursions into "war guilt" recriminations; but the Dawes Plan seems to be leading the parties concerned to what is generally conceived to be the final solution of reparation, namely, its disappearance as an affair among sovereign governments involving servitudes and its absorption in the mechanism of international finance. That the Plan is generally supported is the verdict of its history; Parker Gilbert is able to say in his report of December, 1927, "On both sides the Plan has been carried out with goodwill and loyalty." Germany's ability to pay reparations depends more upon these factors than upon any economic factor. For in this connotation is the German willingness to submit to a lowered standard of living in order that Germany might be quickened to capture world markets under external political pressure. The Plan called for an "irreducible minimum" of home expenditure—a tightening of the German belt—and it would not be extraordinary if German employers gave this as a reason for resisting demands for wage increases. Statistics show that the German worker's wages are not benefiting from the industrial expansion of recent years.

How did the Plan fare up to the end of the third Plan year, August 31, 1927? Germany met all her payments out of revenue on due date; in fact, she took advantage of discounts for certain payments before due date and increased the third contribution out of supplementary contributions from the budget to make an upward gradation between the second and the fourth payments.

[33] *The Dawes Plan and the New Economics*, p. 148.

As thus revised, the payments are in accordance with the following schedule:

First year	1,000,000,000 gold marks
Second year	1,220,000,000 gold marks
Third year	1,500,000,000 gold marks
Fourth year	1,750,000,000 gold marks
Fifth year	2,500,000,000 gold marks

The Position of the German Economy.

The Plan proposed to put Germany on her economic feet as a preliminary to the payment of the standard annuity. The program goes on: "If reparation can, and must, be provided by means of the inclusion of an item in the budget—i.e., by the collection of taxes in excess of internal revenue—it can only be paid abroad by means of an economic surplus in the country's activities." The Plan emphasized this point as it emphasized no other. "Germany's earnings from abroad must be equal to the payments she must make abroad, including not only payments for the goods she imports, but the sums paid in reparation. Loan operations may disguise the position—or postpone its practical results—but they cannot alter it." The Dawes Committee realized that foreign loans were essential in their scheme, but they did not envisage any undue extension of external borrowing; "internal resources," they said, "should meet internal ordinary expenditure and at a very early date should suffice, in addition, to make substantial contributions toward the external debt," including reparations. Outside credits were essential in supplying a broader basis of domestic credit, in providing for agricultural and industrial rehabilitation, and in replenishing stocks of foreign raw materials and goods; so that Germany might be able to set about the task of building up the former ramifications of her industry and the requisite external surplus in her activities which the Dawes Committee recognized as the natural lien for reparations.

Before we consider the extent of the borrowing that ensued after the Plan had gone into effect, we shall examine the economic condition of Germany at the end of 1927 to see if the revival postulated by the Plan had been achieved.

The stability of the currency, one of the primary objects of the Plan, has been so firmly established that the new mark has not only been maintained well within the gold points, but has also oscillated less on the foreign exchanges than has any other European currency. For weeks in the latter part of 1927, it was above parity with the principal gold currencies of the world, the result, however, of the heavy flight to the mark from abroad, not of a favorable commercial balance. The level of prices, which furnishes the measure of the internal value of the currency, rose 13 points in 1927 (1913 = 100), and rose at a time when there was a declining tendency in prices in other countries. These latter must rise higher relatively to German prices before that condition precedent of the Dawes Plan, an economic surplus, can be attained; the effect of domestic high prices is both to restrain exports and to increase imports.

In April, 1924, when the Dawes Committee rendered their report, the reserve in the Reichsbank was 442,000,000 marks; on December 31, 1927, exclusive of "devisen" (foreign exchange), it amounted to 1,864,000,000 marks, the highest point reached since the war, with another 850,000,000 marks of gold currency in circulation. The Reichsbank, Rentenbank, and private note circulation on December 31, 1927, amounted to 5,469,000,000 marks, also the highest point reached since stabilization, giving a percentage of gold backing of about 50 per cent, an eminently satisfactory position. The Plan required the maintenance of a reserve of 40 per cent against circulation, three quarters to be in gold and the remainder in gold exchange.

The measure of German economic ability to raise reparations unaided resides in the creation of internal surpluses between production and consumption. Let us look at the figures for production first. Production in 1927 showed figures of striking significance, both in the basic and the finishing industries, and compares very favorably even with the boom year of 1913. The Institute for the Study of Trade Fluctuations gives the production index for 1927 at 123.2 (average 1924-26 = 100). Coal production in 1927 was 153,597,000 tons, as compared with 140,-

750,000 tons in 1913.[34] Lignite output was 150,805,711 tons, as compared with 87,233,000 tons. The loss of metal productivity through cessions of territory has almost been made good. The output of potash has undergone a remarkable increase in per capita output. In spite of the loss of the Alsace potash fields, the Potash Syndicate's home and foreign sales last year totalled in pure potash content 1,239,400 metric tons, as compared with 1,099,620 tons in 1913. Cement has advanced in production even over the output of the larger pre-war area. The greatest growth is shown in industrial branches that were in course of development before the war by German inventiveness. Nitrate production jumped from 121,000 tons in 1913 to 500,000 tons in 1927; aluminium from 1,000 tons to 21,000 tons; rayon, from 3,500,000 kilograms to 13,000,000 kilograms. German enterprise is shown in a great variety of chemical products whose importance in the economic life of the country is still in the potential stage. On an index basis of 100 the crop yield in 1927 was 97, as compared with 115 in 1913.

Germany began to amass capital by saving after the Dawes Plan had effected a return of confidence; although 20 per cent of the national income is absorbed in taxes, 15 per cent is saved. From a variety of German estimates it is gathered that the growth of net savings has been roughly as follows:

1925	RM	6,000,000,000
1926	RM	7,000,000,000
1927	RM	8,500,000,000

The pre-war savings were about 40 per cent (taking price changes into account) in excess of the 1927 total.

This saving has proceeded side by side with widespread expansion. The home investment for the last three years is generally accepted at: 1925: 9,500,000,000 marks; 1926: 5,800,000,000 marks; 1927: 12,000,000,000 marks. At the same time the reaccumulation of mobile capital in 1925-26-27 is estimated at approximately a billion marks. Taking into account the rise in prices, the

[34] The 1913 figures are limited to the production in the present area of Germany, except where otherwise stated.

working capital throughout the German economy, according to Professor Hirsch, was 30 billion marks as compared with 35 billions in 1913.

These performances are rendered the more remarkable by the contraction of resources which Germany has sustained. Territorial cessions, according to *Wirtschaft und Statistik*, resulted in the following losses on the basis of 1913 production levels: coal, 26 per cent; iron ore, 74.5 per cent; zinc ore, 68.3 per cent; wheat and rye, 15.7 per cent; and potatoes, 18 per cent. In addition, according to the same authority, a little over 89 per cent of the merchant marine was lost to the German flag; since German shipping before the war was instrumental in bringing into the country a large part of the invisible funds that served to offset trade deficits, this is a serious disadvantage in the quest for an external surplus, but it is a disadvantage from which Germany is rapidly recovering.

This is the credit side of the German accounting of performances under the Dawes Plan. When we come to the German budget, we find a state of affairs that the Agent General has not considered so continuously favorable. Two permanent budgets are compiled by the Reich, ordinary and extraordinary, the latter dealing with extraordinary non-recurrent items. From the third year after stabilization, 1926, internal borrowing set in to meet deficits in the extraordinary budget. Budgetary balancing by such methods, says Gilbert, is unsound, since "a balanced ordinary budget plus an unbalanced extraordinary budget means, in fact, an unbalanced budget." There was no lack of revenue from taxation in the ordinary budget; taxation, as a matter of fact, had borne out Dawes expectations; but extraordinary expenditures out of all proportion to revenues, and excessive drains upon those revenues by the states and communes made the Reich turn to internal borrowing to pay its way. In his December, 1927, report, the Agent General notes with approval the declaration of the German Government promising strict economy and its action in reducing extraordinary expenditures in the budget for 1928-9 and in withholding authorization to borrow. This was in conformity with a memorandum which Gilbert had sent to the German Government

criticizing the estimates. So far as the states and communes are concerned, he continues to criticize their overspending and emphasizes the importance of an early definitive settlement of the financial relations between the Reich and the states and communes, since the maintenance of the present loose federal system gravely hampers German public finances.

The abnormal revenues collected under the head of the ordinary budget heightened the good impression of the corrective applied to the extraordinary budget. Receipts for the nine months ended December, 1927 of the 1927-8 fiscal year were 6,337,000,000 gold marks, or 525,000,000 gold marks above estimate. All revenues controlled for reparation purposes yielded a large surplus. These excess yields and savings should counterbalance any strain on the extraordinary budget.

In the field of foreign trade, the figures show a much wider gap between imports and exports than was the case in 1913. But in total volume of trade (reckoning in 1913 values), the figures are approaching the 1913 level, which is an extraordinary development when viewed against the background of Germany's diminished resources:

Year	*Import*	*Export*	*Difference between Export and Import*
1913	10,769.7	10,097.2	— 672.5
1926	7,966.7	7,340.2	— 626.5
1927	11,419.0	7,627.2	—3,791.8[35]

It will be seen that the 1927 import surplus showed a tremendous jump over the 1926 figure; but conditions in the earlier year were peculiar, due largely to the impulse that German economy received from the British coal stoppage, and the restraint to German imports and stimulus to exports caused by Germany's own export of capital.

Loans and German Recovery.

The Agent General calls the present high volume of imports "a problem of the first magnitude." For the most part the excess comprises the tangible transactions made possible by Germany's bor-

[35] *Wirtschaft und Statistik.*

rowings, and these were called for mainly to replenish depleted stocks and to furnish mills and factories with working materials. The rapid growth of production had its origin in the existence of an unimpaired industrial plant supplemented by rationalization, but German rehabilitation would have been retarded for decades without the energizing stimulus of external assistance. "The whole German economy has been under the influence of inflowing foreign credit and in some respects has been dominated by it," says the Agent General. Dr. Curtius likens it to the Nile's fertilizing flood. Some foreign monetary credits have been explicitly conditioned on German spending in the lender's country; for instance, the loan contract between the German Textile Trades Corporation and the British bank, Helbert, Wagg & Co. (December, 1925), covering a loan of £1,000,000 for twenty years at 7 per cent, contains a tying clause by which the corporation pledged itself "to spend not less than £3,000,000 during the year 1926 on purchases in the markets of the United Kingdom,"[36] or nearly 3½ times the sum received.

If stabilization is maintained so that specie has not to be sent abroad in any quantity an unfavorable trade balance represents incoming loans or payments for services rendered or for outgoing loans. Germany's pre-war adverse trade balances used to be the result of her invisible operations in shipping, insurance, interest on foreign investments, etc. These made her an important creditor nation, and the net excess of her credits over her debits was somewhere between $100,000,000 and $200,000,000. The clipping of Germany's external services seriously diminishes these channels of revenue. Most of her foreign investments have evaporated; some were sold during the war, others were confiscated by her enemies. A certain amount of the remaining German capital returned from abroad when stabilization set in, but this and similar invisible items were slight contributions to the adjustment of her trade account. The German balance of payments may be considered as approximating the German commercial balance, and this found its adjustment in foreign borrowing, mostly from the

[36] Kuczynski, *American Loans to Germany*, p. 361.

United States, which has furnished, it is estimated, about 70 per cent of the stream of foreign long-term credits that have flowed into Germany since 1924. Altogether, the amount of American long and short-term credits is estimated roundly at $1,500,000,000, or 6,000,000,000 gold marks. This influx accounts for the smooth payment of reparations; Germany has been spared the pains of producing export surpluses.

Exclusive of the 1924 loan, whose service is included in the reparation transfer, the following table summarizes the nominal German foreign borrowing between 1924 and 1927, the figures being those given in the official estimates published by *Wirtschaft und Statistik:*

FOREIGN LOANS TO GERMANY, 1924 TO 1927, INCLUSIVE[37]

(Par value in millions of marks)

Issues	*1924*	*1925*	*1926*	*1927*	*Total*	*Per cent of total*
Long-term loans:						
Public bodies	....	394.59	455.18	253.64	1,103.41	26
Public enterprises	....	259.50	333.70	78.12	671.32	16
Church corporations	....	16.49	63.92	13.86	94.27	2
Private enterprises	42.00	579.18	722.57	1,038.24	2,381.99	56
Total	42.00	1,249.76	1,575.37	1,383.86	4,250.99	100
Short-term loans:						
Public bodies	....	21.00	79.80	126.00	226.80	77
Public enterprises	....	....	16.80	.....	16.80	6
Church corporations	....	.....	.....	.....	.....	..
Private enterprises	....	29.40	21.00	.....	50.40	17
Total	....	50.40	117.60	126.00	294.00	100
Total loans	42.00	1,300.16	1,692.97	1,509.86	4,544.99	
Long-term loans of Saar district	12.60	16.80	.....	21.00	50.40	

Let us see how this debt compares with reparations paid under the Dawes Plan. Up till August 31, 1927, Germany paid to her creditors 3,720,000,000 gold marks. The total German foreign debt at that time was in the neighborhood of 9,000,000,000 gold

[37] The "short-term loans" in all probability will have to be converted into long-term bond debts.

marks,[38] including the 1924 Dawes Plan loan. The *Journal of Commerce* (N. Y.)[39] estimates the amount of deposits abroad and commercial credits extended abroad at about 3,000,000,000 gold marks; these credit items subtracted from the indebtedness leave Germany with a net indebtedness of over 6,000,000,000 gold marks, or 2,280,000,000 gold marks more than the sum already paid in reparations.

The Agent General in December, 1927, wondered whether this increment of credit was still serving the purpose of German reconstruction. He recognized that foreign loans still had a proper field; but "in so far as they have provided the public authorities with additional spending power at a time when industry was already actively engaged, the incoming foreign loans have merely stimulated expansion, and so have interfered with the solid work of reconstruction."

The complaint was based on superfluity and misdirection. Misdirection of credits lay in the encouragement they afforded to German municipalities to compete with one another in the erection of statues and in such public improvements as stadiums, gardens, swimming pools, and gymnasiums. Most of these credits at the time of issue were labelled "productive," as they were if social service is reckoned a precursor of productivity, but it requires a strain to envisage the productivity of, say, the loan to the Catholic Church in Bavaria, which the Archbishop of Bamberg wrote to the issuing house would be "of great assistance in increasing the productivity of the German people."[40] Dr. Schacht stigmatizes a good deal of the municipal borrowing as "unbridled," and reminds his countrymen that "we are creating an advantage for a political creditor at the cost of a private creditor in the future." Stresemann and Marx have also condemned it severely.

Superfluity came as a natural consequence of the cheapness of money in America contrasted with its dearness in Germany. Money is attracted where it can command the best rate, and the differen-

[38] Dr. Schacht puts it at 10,000,000,000 marks, adding 2,000,000,000 marks to the figure for short-term debt.

[39] December 29, 1927.

[40] Kuczynski, p. 124.

tial between 3½ per cent in New York and 7 per cent in Berlin was enough in 1927 to make exportation from New York at once natural and profitable. The magnet was irresistible in that it was located in a country where state finance is under a form of international control, where the currency is guaranteed, where the people are harnessing themselves to industrial expansion, and where the industrial plant is generally in excellent condition and practically free from debt. Hence, funds were poured into Germany, both in loans and in private investment in German securities, and she had received enough in 1926 to indulge herself in loan-making to others. There is the example of a recent industrial loan to Russia guaranteed by the German Government, and the report of the American Trade Union Delegation to Soviet Russia gives another:

> German banks have recently loaned $15,000,000 for five years to Russian industry for the purchase of German equipment. Sixty per cent of this was underwritten by the Deutsche Bank, but the prices charged were so high that a handsome profit was made by the German firms. An ironical feature of this transaction is that American credits to Germany made possible this loan to Russia and the consequent profits to German rather than to American business houses. It also served to employ German rather than American labor.[41]

Yet there are difficulties in labelling all loans productive or unproductive. More exports or less imports—this was the injunction of the Dawes Committee. Productive loans to build up exports—this is the new watchword. It is not easy to disconnect exports from imports. Are harbor improvements any greater assistance to exports than to imports? Are *all* the loans to the states, which are great employers of industrial labor, unproductive? Is not the social service of the municipalities an aid to German productivity? The truth is that, apart from Germany's particular needs, imports are always a concomitant of a natural development of exports in a manufacturing country dependent to a large extent on outside sources for raw materials and semifinished products.

But a curb was called for on those foreign credits which spelled imports without any concurrent stimulation to production for the

[41] *Russia after Ten Years*, p. 87.

export market; in short, to so-called "unproductive" loans. The virtue of indirect forms of help to productivity furnished by foreign credits did not win over home critics in authority. Abroad there was evidence of a certain chagrin that world investors were exercising their historic function of raising the vanquished to his feet again in such exuberant fashion. Sir Josiah Stamp, a member of the Dawes Committee, says:

> It is impossible to go on forever getting rid of a big I O U for a particular year by means of a series of promises for smaller I O U's for succeeding years and then discharging each of these in turn by a brood of future I O U's and so on *ad infinitum*.[42]

Yet the alternative is a more zealous effort to express the economic power of Germany on world markets at the insistence of foreign debt payments.

Such general agreement obtained in 1927 of the danger contained in the unrestricted borrowings of the political subdivisions of Germany that more stringent regulations were adopted toward the end of the year by the German Loan Advisory Office in Berlin. Loans by the states and communes must now be limited to those needed for immediately productive purposes, of a kind that will benefit not only the locality but also the general economic development of the Reich either by helping to increase exports or to decrease imports.

Germany, as has been said, has been borrowing at a time when her internal acquisitions of capital have been mounting in billions of marks. When looked at in the light of this activity, both the figures for reparations and those for loans raised abroad are dwarfed in dimensions. We have already given estimates of German resources; they are supported by the Minister of Industry, who on January 30, 1928, told the Budget Committee of the Reichstag, "I estimate our home savings at at least three times as much as our foreign loans." Robert Crozier Long, Berlin correspondent of the *Economist*, puts all these estimates in tabular form and contrasts them with the levy for reparations.[43] The result is interesting:

[42] London *Times*, November 9, 1927. [43] *The Mythology of Reparations*, p. 137.

FUND AVAILABLE FROM ALL SOURCES FOR REPARATIONS IN 1925-26-27

	£	*Per cent*
Savings	1,281,050,000	65.4
Loans	443,600,000	34.6
Total	1,724,650,000	100
Paid for reparations out of total available fund	198,600,000	11.5
Paid for reparations out of own savings	.....	15.5
Surplus and percentage of total available fund left to Germany after payment of reparations	1,526,050,000	88.5
Surplus and percentage of savings left to Germany after payment of reparations	1,082,450,000	84.5

The Outlook for Marketing.

It might seem at first glance that Germany could meet her reparation obligations without recourse to foreign borrowings. This is to overlook those domestic needs which find demonstration in interest rates. As long as these are attractive, foreign funds will flow into Germany, provided political obstacles do not block them. An artificial effort was made in 1926 to dispense with foreign credit; it was thought that German resources were sufficient to finance the German economy and that the German economy would be able to finance reparations. But the domestic loans made such a drain on the home market that foreign credits had to be resumed.

The significant feature of the 1926 experiment was that an export surplus would probably have been attained had it not been for the few loans received. When the Germans are no longer obliged by the needs of their economy to pay a high rent for money, this would be the logical development, and the keenness to acquire an export surplus would be stimulated. If Germany were divorced from borrowing, then she would have to get her foreign exchange for reparations from these transactions. The process would probably involve the lowering of the present standard of living to enforce a reduction of prices in order that more goods might be sold abroad. The Dawes Plan repudiated as a matter of course the view that Germany's full domestic demands should constitute a first charge on her resources and that what was available for her Treaty obligations was merely the surplus revenue that she might be willing to realize. It insisted on a minimum expenditure for Germany's own needs.

If we do not wish the product of Germany's stimulated industry to be absorbed at home, however, we must give her a chance to sell her goods overseas. While insisting on the eventual creation of an economic surplus, the Dawes Committee did not disclose where the Germans were to get their markets or recapture those services which in the past helped them to balance their accounts. To the foreign creditor, the capital withdrawn for transfer abroad represents a command over German goods and services which must be accepted whether neutralized by return loans or not. When the question is looked at from this approach it takes on a different complexion, and one that is not entirely agreeable to manufacturers anxious to prevent "reparations competition" in foreign markets.

Protective tariffs and anti-dumping legislation show that the creditors are doing their political best to prevent any such creation of an economic surplus as the Dawes Plan postulated. Germany cannot export foodstuffs and raw materials as do other debtor countries; she must pay her debts in competitive manufactured goods. She is turning a good deal of her energies from the walled-in West and using them eastward in order to create this surplus. The one important European market in which Germany may operate free from the harassments set up specially to hamper her in other markets is Russia. Economically, she is taking advantage of the political hiatus which is impeding other manufacturing countries from tapping this reservoir of buying power; the high forbidding barriers of the West are driving Germany into an economic *rapprochement* with Russia just as inexorably as she was driven into the Treaty of Rapallo by her necessity of owning at least one card in the European pack that was played against her after Versailles. The marketing loan to Russia already mentioned, perhaps made possible by American assistance, was an outward sign of the efforts which Germany is making to capture customers for the products that she must dispose of if she is to pay reparation without any outside assistance to her economy. Rationalization in industry is in progress in Soviet Russia as well as in Germany, and is an increasing concern of German manufacturers, as may be observed any day in the bustling activity in

the Berlin offices of the Soviet foreign trade organization. American credits to Germany may be more productive to German economy when they are relayed to Russia than when they are applied in Germany itself! Farther east, Germany has recovered her pre-war trade with that other vast market, China. Being no longer trammelled with the political responsibilities of empire, she is gaining a reversion of the trade which most nations with political privileges are losing in this far eastern republic. The absorptive capacity of these markets has to be nourished by long credits, and these involve the possession of more and more working capital. Thus are German exports of finished products growing steadily; in 1927 they registered an 8 per cent increase over the 1926 total.

It would seem the part of wisdom to face reparation as a trade problem with a keener regard for the "forcing" of German competitive power in the hothouse of reparations. Competition will come in any case, and a long view would warrant an approach to coöperation so that Germany might play her part in world markets with her specialized products. Export specialization was dovetailed before the war by the economies of Great Britain and Germany in their relation to each other, and it is in an extension of this system through cartels and similar combinations that some economists are seeing the way to accommodate European and eventually world surpluses.

Sir Josiah Stamp says there are three ways of looking at reparations:

> As investor—interested in getting his return on foreign investments duly paid; as taxpayer—interested in getting reparation and debt interest to the relief of taxation in the national budget; and as manufacturer and exporter—interested in resisting the outflow of German exports which are the actual condition of the foregoing.

When all three functions are combined in the same person the result is a conflict of opinion, subject to the influence of the morning correspondence!

The "Priority" Question.

The process of pumping funds into Germany proceeded at such a rate that in the fall of 1927 it brought up a question of priority

in service as between reparations remittances and loans. It was a question of such importance to the American investor that quotations on existing issues in the United States were dropping at the end of the period under review and fresh flotations had come to a standstill. It has already been recorded that the external loan of 1924 was granted preferential treatment of service over reparation charges. This was necessitated by the floating charge which Article 248 of the Treaty of Versailles gave the creditor states on the assets and revenues of the Reich and its constituent states. The article says:

> Subject to such exceptions as the Reparation Commission may approve, a first charge upon all the assets and revenues of the German Empire and its constituent States shall be the cost of reparation and all other costs arising under the present Treaty or any treaties or agreements supplementary thereto or under arrangements concluded between Germany and the Allied and Associated Powers during the Armistice or its extensions.

The Prussian Finance Minister, in September, 1926, insisted that no existing obligations involved any restrictions upon the acquisition of foreign exchange to meet the obligations of a loan floated at that time by Prussia. He ignored reparations and the 1924 loan entirely. No such exception from the ruling of Article 248 was asked as was granted in the case of the 1924 loan; priority of remittance was taken for granted. The Transfer Committee had to take notice of the Prussian assumption, and declared that they could not acquiesce in its arbitrariness, since "the service of the Prussian external loan must necessarily be regarded as secondary to the obligations in respect to the transfer of reparation payments which the German Government has assumed by virtue of the Experts' Plan and the London Agreements." Thus the Transfer Committee outlined their interpretation of their legal rights of priority on the exchanges for reparation transfers and the service of the 1924 loan. The controversy eventually obtained a public airing, and created a stir in banking circles, but it was generally recognized that it was as impossible to conceive of a situation in which all available foreign exchange would be monopo-

lized by German borrowers to the exclusion of reparation commitments as to picture a Germany forced into general default in the payment of interest on private foreign obligations while the reparation creditors helped themselves out of German assets. In either event Germany would be on the highroad to bankruptcy.

The Dawes Plan is a program of detailed method for giving reparations the precedence accorded in general terms by Article 248 of the Treaty. As long as the Plan is kept at work, Article 248, being merely a floating charge, has no other exercise. The Plan sets up the obligations of the Reich in regard to the collection of funds, and if they are not made, gives the reparation authorities certain sanctions, but it affords no rights over private property or the funds set aside by municipalities or corporations for the payment of their debts. Only in the inconceivable event of a deliberate ruin of German economy would Article 248 ever find a definite exercise.

Exchange, upon which the transfers depend, is created by trading operations. When goods are exported to another country the German exporter receives a bill of exchange; *vice versa*, when goods are imported the importer must pay for them by buying exchange. Exchange is bought from the exporter and sold to the importer at the bank with German money; the bills constituting exchange largely obviate the necessity of shipping currency in settling international obligations, by setting off import and export transactions through banking operations. A balance in favor of exports gives Germany a surplus of exchange. As a practical matter of everyday commercial life bills are voluntarily sold to the Reichsbank and as voluntarily resold to customers requiring them to settle their commercial obligations. The Plan contemplated as a permanent policy the rule of convertibility into gold or exchange for the notes of the new Reichsbank; as did the German bank law that put the banking provisions of the Plan into effect. But neither the Plan nor the bank law made this rule operative at once; both modified it for temporary convenience in such a way as actually to give the Reichsbank the power to refuse to sell gold or exchange to applicants presenting marks. This modus still obtains, the necessary steps to change it not having yet been

taken, but is not applied for practical reasons; the Reichsbank in fact has formally pledged itself to transact exchange without restriction. If there were any attempt at rationing in reselling, this would seemingly involve a kind of inconvertibility, and might smash the exchange value of the mark, thus pushing Germany back into the economic chaos out of which the Plan retrieved her. This would also appear to be the result of any application of the Plan regulation to amass marks in Germany in the event of inability to buy exchange for the purpose of transfer; the marks so kept would seemingly depreciate.

Exchange not only comes into Germany in payment of exports; it is created through borrowings, and the exchange from this source has ultimately provided remittances to Germany's reparations creditors. Any interference with the service of these loans in the way of rationing would therefore be equivalent to the killing of the goose that lays the golden eggs of exchange. Germany simply would not get any more loans.

What is the authority of the Transfer Committee in connection with the purchase of exchange? The Dawes Plan says: "The Government and the bank [i.e., the new Reichsbank] shall undertake to facilitate in every reasonable way within their power the work of the Committee in making transfers of funds, including such steps as will aid in the control of foreign exchange." In the French text, which has equal force with the English text, "control" was not used; the Transfer Committee were charged conjointly with the German Government and the Reichsbank to maintain exchange stability, the full text reading:

Le Gouvernement allemand et la Banque devront s'engager à faciliter, de toutes les façons raisonnables en leur pouvoir, le travail du Comité au point de vue des transferts de fonds, et prendre notamment les mésures nécessaires pour aider au maintien de la stabilité des changes.

"In the event of concerted financial manoeuvres," continues the Plan, "either by the government or by any group," for the purpose of preventing transfers, the Transfer Committee are authorized to "take such action as may be necessary to defeat such manoeuvres."

Since the Transfer Committee was created to protect German exchange and credit, and since any rationing would destroy what the Transfer Committee was created to preserve, John Foster Dulles is of the opinion that the Dawes Committee implied that Germany should exercise self-control, apparently in her public finances. The Agent General's memorandum could therefore be construed as recalling the Germans to this obligation, to which they have shown themselves to be responsive. Control by the Transfer Committee runs counter to the Plan insistence that economic forces must be allowed to operate unimpeded, as they must if stability is to be insured.

No transfer question has yet arisen, let alone a transfer crisis such as is prophesied freely in Europe; all reparations so far collected have been duly transferred. Furthermore, the Agent General acknowledges that internal values have gone up by several times the amount of new foreign debt, notwithstanding the reparation charges.

The Plan is a kind of laboratory experiment in foreign exchange problems, and just as it was reared, as General Dawes said in effect, on the dead bodies of many economic theories, so its execution is putting several other theories in question. One of these is the distinction between the collection of stable reparation marks in Germany and their transfer to the creditors abroad. It is a judgment of some observers of the Plan in operation that these two questions are more related and less distinct than the Dawes Committee imagined. Some go so far as to say that if stable marks can be accumulated they can be transferred without mishap.

However casuists may mangle the irrational dispute relating to priority, there seems to be no question that there can be no tampering with loans to industry, or that new loans other than state loans do not come within the provision of Article 248. First, the Dawes Committee insisted that "our plan is strictly dependent upon the restoration of Germany's economic sovereignty." The tenor of the Plan shows a clear purpose throughout that German business should be allowed to function untrammelled, and that reparation transfers should be made as "in the judgment of the [Transfer] committee, the foreign exchange market will permit,

without threatening the stability of the German currency." Secondly, it encouraged foreign financing in the rehabilitation of Germany to reënergize the German plant for its work of creating an external surplus.

It is evident that no way out of these technical uncertainties could be provided by recourse to arbitration, because, were priority granted to private creditors, a political storm would ensue among the governments concerned in receiving reparation; *vice versa*, were priority given to the governments, foreign financing, the present generator of reparations, would diminish, because German loans would hardly be attractive to investors.

Possibilities of the Future.

These periodical arguments make it advisable to consider the materialization and commercialization of the German reparation debt concurrently with the restriction of borrowing to productive loans. Germany is paying in the Dawes standard annuity between 2 per cent and 3 per cent of the formal 1921 bill of 132,000,000,000 gold marks without any provision for amortization. She is subject to the humiliations of continued surveillance, a surveillance that gives such an acid turn to German emotion as *Simplicissimus* showed when it pictured the German taxpayer in 1900 pouring his savings into the lap of the militarist and in 1928 into that of Uncle Sam.

It is sometimes stated that precisely because of this resentment at the subordination of their entire economy as a function of reparation, the Germans are defying the Dawes Plan by improvidence so as to precipitate a crisis by which to escape their obligations. Naturally the Germans are restive under what the *New York World* calls a "receivership" managed by a super-controller, and will agitate increasingly for its removal, but it is neither a deduction from the Agent General's reports nor a tenable inference from the facts that the Germans are trying to torpedo the Dawes Plan. That way lies ruin for their credit and an appeal to the sanctions of the Treaty of Versailles—risks too catastrophic to invite save in revolution. The methods of guaranteeing the payment of reparations from Germans who are fast losing contact

with the war is often dismissed as merely a problem in economics. Political fears and uncertainties sometimes take refuge in economic arguments; indeed, it is hard to resist the conclusion that this might be the explanation of past transfer worries.

The Agent General, in concluding his report of December 10, 1927, said:

> . . . The very existence of transfer protection tends to save the German public authorities from some of the consequences of their own actions, while, on the other hand, the uncertainty as to the total amount of the reparation liabilities inevitably tends everywhere in Germany to diminish the normal incentive to do the things and carry through the reforms that would clearly be in the country's own interests.

The Experts looked upon the protected system established by the Plan as a means to meet an urgent problem and to accomplish practical results. The only alternative to it is the final determination of Germany's reparation liabilities, on an absolute basis that contemplates no measure of transfer protection. The Experts did not indicate when in their opinion such a settlement would become possible in fairness to the interests of all concerned. That would indeed have been beyond their power to foresee; but they did prescribe the Plan as providing "a settlement extending in its application for a sufficient time to restore confidence," and they felt that it was "so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible." We are still in the testing period, and further experience is needed before it will be possible to form the necessary judgments. But confidence in the general sense is already restored, and the proof of it is present on many sides. It is, in fact, one of the principal factors to be relied upon in bringing about a mutually satisfactory settlement when the time for that arrives. And as time goes on, and practical experience accumulates, it becomes always clearer that neither the reparation problem, nor the other problems dependent upon it, will be finally solved until Germany has been given a definite task to perform on her own responsibility, without foreign supervision and without transfer protection. This, I believe, is the principal lesson to be drawn from the past three years, and it should be constantly in the minds of all concerned as the execution of the Plan continues to unfold.

These problems cannot be resolved without protracted negotiations on the basis of the experience of the Dawes Plan and in accordance with its philosophy. At present Germany is paying reparations in the form of interest instalments on some imaginary capital sum. Though these amount to about 16 per cent of her public revenues, and though the burden of taxation necessitated thereby is approximately 5 per cent of her total gross income, Germany's internal debt, thanks to the practical wiping out of her bonded debt by inflation, is only a billion dollars, or about a twelfth of France's. It is not the reparation burden that is intolerable, but the lack of any definiteness in the obligation. The only materialization of liability that the Dawes Plan vouchsafed to Germany was in respect of the railroad and industrial bonds, respectively totalling 11,000,000,000 gold marks and 5,000,000,000 gold marks. It cannot be gathered from the Dawes Plan whether their issuance in the markets of the world, including the German market, would be considered as extinguishing any capital obligation of the German Government in respect of reparation. If such a step were adopted it would place a great amount of the capital sum in the creditors' hands and would give German industry a chance to begin redemption of its share of reparations.

Many schemes for commercializing reparations are in course of canvass. A suggestion that seems to have merit is one which would involve simply an issue of German bonds and their offer by the creditor governments to their bonded debt holders by way of exchange. The priority question notwithstanding, there does not appear to be much likelihood of disturbance to the credit position which Germany has established so firmly in the world of finance and which she has been able to maintain without any "protection" from outside. The next step in the scheme whereby the Germans would take over part of the burden of the Allied national debts would be the gradual acquisition of the bonds privately by German nationals and officially for cancellation by the German Government. This is a process that is going on all the time; it would be interesting to know, for instance, what proportion of the post-stabilization loans to Germany has come into German possession.

It is in the interests of public policy to relieve Germany from

the continuing interference involved in collecting reparations. No civilization can be stable in which sovereign states are permanently in debt to one another through their governments. Despite the fact that the confidence adumbrated by the Dawes Committee has been admittedly restored, a general settlement on these lines is held up by many factors, not the least of which is the controversy on the question of relating reparations to the war debts. Political relationships in Europe thus remain ulcerated with the deadweight of war debt charges and the sanctions of a war ten years ended—side by side with arrangements which during 1927 knit the French and German economies in a *rapprochement* containing what in some quarters have been called the seeds of a commercial and currency union.[44]

[44] Germany paid the fourth annuity with the same promptness as she paid the previous annuities. She was at the same time a heavy borrower in foreign money markets.

CHAPTER TWO

DEBTS

FINANCING THE WAR

ANY assessment of the cost of the war in money terms is bound to be arbitrary. The loss of potential profits in the devastated areas, local costs as distinct from government costs, the difficulty of computing the economic equivalent of casualties—these are immeasurables that make all estimates of little scientific worth. Yet the attempt has been hazarded both by government authorities and by professional economists. The latter have not been deterred from examining the French figures even by the knowledge that a war-time French Minister of Finance once stated: "The State has no accounts." Professor E. L. Bogart takes his investigations further, and actually works out the money value of a dead Frenchman—a grossly materialistic occupation were it not for the fact that the debt policy of the financial creditors left by the war has made this infelicitous task not altogether inappropriate. But Bogart, together with Professors Seligman and Théry, admits that his excursions in computation must be regarded as provisional estimates. Bogart says that the loss of human lives and the deterioration of the race are among the most formidable and lasting elements in war costs. Seeing that these social and moral consequences affect not only the present generation, but also generations unborn, this is true enough; this legacy of the war is but part of a greater legacy, the retardation of civilization, which has its economic value just as much as have pensions and expenditure of shot and shell. It remains non-assessable, varying according to the degree with which a nation had living contact with the war.

Commonly accepted figures for comparative purposes are based on a rough and ready accounting of the difference between peacetime and war-time expenditures incurred by the central governments. It took the French seven years to clear up their 1915 finances, but there is no other way than to accept official figures, and these are the basis of the following table[1] from *The Inter-Ally*

[1] P. 21.

Debts by Harvey E. Fisk, showing the war costs borne by the Great Powers relatively to basic items in the national economies—the only mode in which a comparison of war burdens may be expressed:

RELATIVE COST OF THE WAR TO THE GREAT POWERS

(In "1913" dollars)

	Gross cost of war per capita	*Gross cost of war, per cent of national wealth, pre-war*	*Average annual cost of war, per cent of national income, pre-war*	*Battle deaths, per cent of population*
ALLIES				
Great Britain	524.85	34.49	36.92	1.44
France	280.20	19.36	25.59	2.31
Italy	124.59	20.59	19.18	.92
Russia	44.01	13.11	24.10	.98
United States	176.91	8.67	15.50	.05
CENTRAL POWERS				
Austria Hungary	108.76	18.13	24.18	1.60
Germany	292.57	24.71	31.58	2.35

It will be seen from this table that Great Britain made by far the largest proportionate contribution of all the combatants to the cost of the war. In actual cash spent, in "gold" or 1913 values, Great Britain also led, with France and the United States closely competing for second place. The 1920 report of the Secretary of the Treasury puts the American net money costs at $33,455,000,000 from April 6, 1917 to June 30, 1920, "the war period." This includes the net principals of the then unfunded government debts owed to the United States. In his 1927 report, Secretary Mellon undertakes to give a more circumstantial accounting, and arrives at a figure of $35,119,622,144. He extends the war period to the middle of 1921, or the time of the official termination of the state of war existing between the United States and Germany. He includes, as the 1920 calculation did not, a certain amount of interest on the war debts, but excludes the net principals in view of the funding and prospective funding operations. Additions that offset the exclusion of the debts embrace additional expenditure

on war account, readjustments of the previous figures, and the cost of hospital construction and expenditure by the Veteran's Bureau. The latter item is an example of the imperfection of the calculation inasmuch as this cost is a charge on the future as well as on the past and present. Another continuing cost is that part of the public debt of the United States which was created as the result of the war.

The need for some token by which partly to envisage the financial meaning of the war is the excuse for these calculations. Fisk tries further to bring them to the comprehension of the lay mind by recomputing total war costs in pre-war gold values. He works them out at $80,680,000,000—or 90 per cent of the national income[2] of the United States in 1926.

How were these huge sums raised? In various ways—by taxation, currency inflation, internal loans, and external borrowing. Confiscation was sometimes tried, but inflation, being an indirect form of confiscation, in that it dilutes purchasing power, rendered direct levies unnecessary. Of all these methods, taxation is the most honest, and has the closest relation to reality. "If a nation can be buoyed up by the excitement of war, hopes of conquest, and the gambling chances of victory, without any corresponding increase of taxes," said Charles James Fox, "the game would be played with eager readiness, and the motives would be lightly examined." The British statesman thus pointed his opinion that the expenses of war should as far as possible be defrayed by the generation that encounters its hazards.

But the late war was a cataclysm, and the European belligerents were early driven to other expedients in financing than taxation, since there is a limit to taxation marked by social disturbances. In the Reichstag in 1915, Dr. Helfferich defined German financial policy as consisting of war taxation and loans, the issuance of paper money, and the reduction of expenditure. The Germans hoped to recoup themselves out of the spoils of victory. Their opponents, as we have seen, held the same hopes, only to have them dashed on the rocks of political impossibility. In 1914, France was allegedly the most heavily taxed nation in Europe,

[2] Based upon the estimates of the National Bureau of Economic Research.

and the French, not daring to add to these burdens, relied upon loan making, the printing press, and external borrowing. In December, 1914, the Minister of Finance stated plainly, "We propose neither to create new taxes nor to increase old taxes." Of the Allies, Great Britain steered the longest course in "paying her way," but soon the British, too, were compelled to dilute the purchasing power of their currency, a policy of forcing contributions on all fours with the clipping of coins practiced by that medieval French king whom Dante consigned to the lower reaches of his Inferno. Dr. Knauss, in a study of German, British, and French war finance, calculates that Great Britain raised 20 per cent of her war expenditure by taxation,[3] Germany 6 per cent, and France none at all.[4] It is difficult as yet to examine the details by which these proportions were reached, because the official records are not only incomplete; as Gaston Jèze observes, "their sincerity is frequently suspect." In the United States, one-third of the war expenditure was raised by taxation and two-thirds by loan.

United fronts were essential to victory; hence, instead of dropping out of the war when their resources became exhausted, weaker Allies leaned on richer Allies, postponing their day of reckoning till the victorious future. The advent of the United States into the lists on April 6, 1917, found Great Britain staggering under the financial burdens of the Entente Powers, while Germany, unable to raise foreign loans, and overweighted with economic responsibility for the Central Powers, was encouraging the sale of marks abroad. The United States eased Great Britain's shoulders and became the ultimate banker of the Allies, emerging from the conflict financially indebted to none but the creditor of twenty nations. Only six of them, Great Britain, France, Belgium, Italy, Serbia, and Russia, received loans during war-time. It is these debts that we shall deal with almost exclusively in this section, mentioning the remainder of the intergovernmental war indebtedness only by way of comparison in the funding arrangements. When the armistice was signed, the United States Government had made advances for the prosecution of the war amounting to

[3] British official figures put the percentage as high as 28.5.

[4] Schacht, Hjalmar: *The Stabilisation of the Mark*, p. 14.

$7,077,000,000; another $2,521,000,000 was lent after the armistice in connection with the same purpose; and other advances were made to neutrals as well as ex-belligerents so that they could purchase surplus war and relief supplies to tide over the post-armistice period. Altogether, on November 15, 1922, immediately prior to the first funding arrangement, the principal of the obligations of the war debtors held by the United States Treasury totalled $10,045,000,000, of which $9,386,000,000 represented loans made under the authority of the Liberty Loan Acts, the balance being advances under succeeding war supplies and relief acts.

The entrance of America into the war in 1917 did not mark the end of loan-making by the Allies among themselves. Great Britain in particular borrowed from the United States with one hand and lent to the Allies with the other, the reason being that there were commodities in America that Great Britain required for her own use and was obliged to pay for in borrowed dollars. France also required British commodities, which she had to procure on credit; while Belgium, Russia, and Italy likewise called on France for supplies that they could not produce and for funds to pay for them. The gross intergovernmental indebtedness incurred in this way, exclusive of reparations, was estimated in 1923 to amount to $28,000,000,000.

It would seem that general bankruptcy should have attended the long-deferred day of reckoning for some of the Allied states. This was the outcome predicted by many observers who in pre-war days had freely proclaimed the economic impossibility of waging a world war such as overtook mankind in 1914. After the Napoleonic wars Adam Smith gave voice to like pessimism when he said, "The progress of the enormous debts, which at present oppress, and will, in the long run, most probably ruin, all the great nations of Europe has been pretty uniform." But the British debts mentioned by Adam Smith quickly became bearable after they had been consolidated and shared by world investors, including Frenchmen! Similarly after the 1870 war, French loans to pay the indemnity were subscribed by the world at large, including Germans! Describing the general bewilderment of the world over the

speedy payment of this indemnity, a writer in Blackwood's *Edinburgh Magazine* of February, 1875, said, "The fact was that the commercial world had no idea of its own power." Shall we add: And the coöperative possibilities of that power, blended by the healing acts of peace? For we now see American investors helping the Germans to pay reparations and at the same time absorbing Allied internal war debt.

It is sometimes forgotten that in the economic sense the world paid for the war as it was being waged. The debts in this sense became matters of bookkeeping, the principal problem of adjustment for national economies under the present capitalistic system and in the exigencies of the subdivision of the world into states being one of redistribution of liquid capital. The money standard obfuscated the war's economic effects, because its dislocation hampered the realization of real wealth in terms of productivity. If real wealth be regarded as human labor and machinery and the commodities they both produce and fabricate, it did not suffer sufficient damage in economic terms among the belligerents to cause stagnation, because those belligerents were left with populations and equipments physically capable of resuming production, as has been shown in the recovery of Germany and France. In fact, several national equipments were left in better shape than before, the fruit of the enthusiasm and coördination induced by war-time exertion. The trouble was that working capital had been scattered and that confidence had been shattered, factors which delayed the reintroduction of available supplies to productive processes, and which created the disastrous interregnum between the armistice and the Dawes Plan. Post-war events confirmed Henry Ford's dictum that "real wealth is often compelled to wait upon money."

Consequent upon the violent shifting of the money bases of economic life between 1914 and 1918, financial ownership flowed to new sources of control. The belligerents were compelled to restrict their output of exchangeable goods, and the finely adjusted mechanism of international trade fell out of joint; the Allies in Europe had to call on the neutrals for supplies, which, because of the engrossment of their own economies with war making, they

could not offset with goods. Gold in peace-time is used very sparingly in the balancing of accounts, and almost automatically, but the one-way channelling of goods during war-time demanded a channelling back of the yellow metal to pay for them. America's excess of exports over imports between 1914 and 1918 amounted to nearly $12,000,000,000. Payment for this huge volume of commodities dammed up half the world's gold supply in the United States, and the European countries, denuded of much of their reserve, began to pay for their imports out of their holdings of American securities. According to estimates in the Harvard *Review of Economic Statistics*, July, 1919, from $3,500,000,000 to $4,500,000,000 of American securities were held abroad in 1914, principally by Great Britain. Fisk estimates the French share at $1,200,000,000. The Harvard journal states that about $2,000,000,000 of the aggregate amount was returned in payment of imports up till 1919.[5] Thus was diminished a capital liability which had been incurred over two centuries in the development of the United States.

America leaped from the position of a debtor to that of a creditor nation, and so great was her accretion of financial power that most of the European nations lay prostrate until the United States through her bankers and tourists began to disperse financial ownership. This was merely a continuation of the function that the United States had undertaken when she declared war; she would have cornered all of Europe's gold stock had it not been for the credits she began to extend to the Allies after her enlistment as a belligerent.

The Place of Subsidies in War Financing.

It is the verdict of history that war debts have never been regarded in the same light as peace debts. They are rendered different by the fact that a commercial loan ordinarily finances a productive enterprise or a state with immediately potential resources. In war, states will cheerfully sign huge obligations to pay for commodities which are to be used for destructive purposes.

[5] Other estimates add $1,000,000,000 to $3,000,000,000 to these estimates of United States securities that returned to America.

When the time for payment comes round, the debtor state, being no longer in danger, seems to look upon its burden as equivalent to paying for a dead horse. When it was suggested that the Austrian debt to Russia to suppress the Hungarian revolt would place Austria under an intolerable obligation, the Emperor Francis Joseph replied, "We shall astonish the world by our ingratitude." French financial assistance, expressed in consignments of munitions and supplies, contributed greatly to the success of the revolting North American colonies leading up to Yorktown, and for this last victory the revolutionists were indebted in equal measure to French military and naval support, which is estimated to have cost France $700,000,000 and for which she asked no recompense. France's help was expressed in outright gifts amounting to nearly $2,000,000 and in post-alliance loans to the extent of some $6,000,000. In making funding arrangements with Benjamin Franklin, the government of Louis XVI remitted war-time interest charges, a course that the United States was to pursue after the World War in her funding agreement with Belgium. Between 1786, when the first repayment fell due, and 1790, no contribution on the debt either of principal or interest could be made by either the Confederation or the infant Republic, and repeated calls for a settlement by the new-born French republic in 1793 fell on ears attuned only to the needs of an impoverished people struggling to nationhood. It was left to Alexander Hamilton eventually to apply his financial genius to a tardy liquidation of this indebtedness, which was converted into domestic bonds and retired in 1815.

Great Britain is wise in the financing of coöperative wars, having had long and bitter experience. Sydney Buxton[6] said of England during the Napoleonic wars that she paid everybody, and that her one faithful friend was the only ally she did not pay, namely, Providence. Her payments took the form mainly of subsidies, which are said to have been the most long-lived feature of British foreign policy, familiar even in the fourteenth century, when Edward III paid French and Flemish princelings to win French territory. When the modern system of European states

[6] *Finance and Politics; an Historical Study, 1783-1885.*

evolved, it was the purpose of British policy to secure its maintenance by subsidy. Every contender for European dominance found himself opposed by a combination financed by an implacable Britain. Great Britain could take care of herself on the sea; on land there was always the military organization of an impecunious ally to be bolstered up with funds. It is estimated that the total sum of remittances for British subsidies and loans abroad, from 1793 to 1816, was £61,300,000, of which at least £53,000,000 represented subsidy payments.[7]

There was another reason for subsidies; they insured loyalty and effort. Being granted monthly, they could be stopped promptly if an ally showed slackness, whereas, such was the morality of the times, it was always possible that a loan might be absorbed by Great Britain's allies without any counterpart of exertion on the battlefield. So the general British attitude was like that of the man who, remembering Polonius, would give money, but not lend it.

When loans were granted in place of subsidies, they invited unfortunate consequences. The most famous examples in British history were the Austrian loans of 1795-7, which amounted to £6,200,000 in all; although, after the commission agents had had their fill, the sum received by Austria had dwindled to around £3,000,000. Twenty-one years were allowed to elapse without any attempt being made to settle this clear and acknowledged debt. We find parliamentarians urging at least a reacknowledgment from Vienna. But succeeding British governments defended the debtor and restarted the supply of subsidies interrupted by these loans. "I cannot admit that Austria ought to be considered as lying under any reproach in not having yet indicated any disposition to discharge this debt,"[8] says Lord Castlereagh. He appealed to the House of Commons to exercise forbearance, even in their demand that Austria should pay a moiety of interest, until Austria had been helped "more on her legs than she is at present," basing his appeal on the statement that Austria had fought well. The debt had accumulated to £17,400,000 by 1821, and Austria, not having to pay Great Britain, was able to indulge in a war on Naples. Two years later, Austria at long last funded the debt at

[7] Quoted by Gay, in *Foreign Affairs* (N. Y.), April, 1926.
[8] Hansard. First Series. Vol. XXXIV, col. 866.

£2,500,000, and so pleased were the British with the first instalment of interest they received that they translated it into paintings to create the nucleus of the National Gallery. Britain's net receipt on this account was £2,189,286; had Britain demanded more, she would have obtained nothing. According to Lord Liverpool, the whole question at the time the loan was granted was whether it would be better "to give Austria six millions in that way or as a subsidy. Many persons thought it would have been better to have granted it as a subsidy than as a loan, and certainly at the time the transaction was carried into effect, there was no individual who voted for the loan who would not have voted for giving the money as a subsidy."[9]

Here was a recognition, which was proved by the settlement, that the loan was a subsidy with a difference; this has been urged in some quarters for the main portion of the World War debts owed to America. The conditions in the British Parliament a hundred years ago were almost duplicated in the debates in Congress prior to the opening of war credits to the Allies, but there the likeness ends.

HOW THE LOANS WERE CONTRACTED

INTERGOVERNMENTAL loan-making was the outstanding feature of the war's financial history and has proved to be its most lasting tangible consequence; but in its American aspect it differed from war-loan precedents in that, first, it was subject to the principle of association in place of alliance; secondly, it was never allowed to mitigate the energy of military participation by the lender; and, thirdly, it was founded on a more commercial basis. These are the broadly conceived differences, for definitions on this subject are treacherous and subject to constant qualification, which insinuates itself in and out of any comprehensive discussion.

The United States an Associate, not an Ally.

The United States was alien to the system of alliances and arrangements that constituted the pre-war history of Europe. She had no part in the development of the two blocs of nations that

[9] Hansard. New Series. Vol. X, col. 878.

had kept Europe in diplomatic turmoil since the dawn of the twentieth century; diplomatic entanglement had no connection with America's entrance into the war. Nor had sentimental attachment; a state of war had long been thrust upon the United States by the unrestricted submarine warfare of Germany before it finally received recognition from Washington and became the *casus belli.* "We enter this war," said President Wilson in his address to Congress on April 2, 1917, "only where we are clearly forced into it because there are no other means of defending our rights." That the United States had her own peculiar reasons for embarking on war with Germany is further proved by the fact that she failed to make any declaration of hostilities against Turkey and Bulgaria, two of the Allies' enemies. Congress established this peculiar relationship in their war resolution: "The Imperial German Government has committed repeated acts of war against the government and the people of the United States of America." America's collaboration with the Allies, in brief, was forged for the single purpose of defeating Germany. If her loans had had a relation to subsidy, she would naturally have been interested in the apportionment of the spoils of victory, for it is of the essence of subsidy that the subsidizer shall be the principal artificer of the rearrangement. Pitt guided the coalition against Napoleon; his interest lay in the new map of Europe. America's interest in the war in Europe was to secure her sovereign rights from an aggressor; and these secured, the apportionment of the spoils became a matter for the Allies to settle, while the United States negotiated a separate treaty of peace with Germany. The Treaty of Berlin is the final evidence of the lack of alliance of the United States with her former associates in war.

Because she was only an associate, the United States was not a party to the understandings and exchanges of views among the Allies in preparation for the allocation of the fruits of victory. She was not a member of the fighting Entente. The world had a revelation of this when President Wilson was confronted at the Conference of Paris with all of the secret treaties which the Allies had concluded while the war was still in progress. These allowed of no opportunity to realize the war aims which President Wilson had

been individually inspired to submit as the program of the world's peace. Comradeship had been fashioned out of the fervor of crusading, but when crusading had come to an end, it was seen how disparate were American and European ways.

This political aloofness of the United States by way of association and not alliance is not affected by the intimacy of the military partnership. The United States could not enter the fray and engage Germany when and where she was not already at grips with the Allies; the corollary of war with Germany was to be ranged on the side of the Allies. A common enemy connotes friends, and, indeed, partners in any hostile move against the enemy. The struggle itself was the meeting ground between the Allies and the United States, involving the kind of military coördination such as was acknowledged soon after the American declaration of hostilities in a fraternal message from President Wilson to President Poincaré. "We stand as partners," he cabled to the head of the French nation—a recognition of interlocking defense.

The United States a Combatant as well as a Lender.

The United States was a direct as well as an indirect contestant; she fought Germany as well as financed the cause against Germany. Unlike the Austria of the late eighteenth century, the chief contenders had reached a high degree of nationhood, fighting on the same plane of equality, and uniting enthusiastically under the stimulus of a great cause which did not allow of slack performance or purchased loyalty. Bargained loyalty was obtained from the lesser contenders.

A factor that disturbs this simple evaluation of American cobelligerency is that the United States did not come into conflict *à l'outrance* for fifteen months after she had declared war. Not till 1918 did American intervention attain equality of *human* contribution. According to General Pershing's reports, only 300,000 American troops had reached France by the end of March, 1918; "if it had not been that the Allies were able to hold the lines for fifteen months after we entered the war," he says, "held them with the support of the loans we had made, the war might well have been lost."[10]

[10] At Denver, August, 1924.

Nor was the navy ready for battle when the rupture came. On the authority of Admiral Sims[11] we know that months elapsed after April, 1917, before the American naval arm had gotten into "proper working order." "We had no plan, no preparation, no artillery, no transportation, no ships, in fact, nothing," sums up General Pershing. Who was America's proxy while effective participation hung fire? Great Britain, France, Italy, and the other Allies, whose troops, in the words of Major-General John F. O'Ryan,[12] "died while serving as substitutes for American boys." Representative A. Piatt Andrew makes the parallel that we were "virtually placed in a situation like that voluntarily assumed by many men in the North during the Civil War, who, having been drafted for the Union armies, hired substitutes to take their places."[13] The British and the French alone lost 460,000 men killed and nearly a million wounded in those critical days when the German battalions, galvanized by the imminence of American participation, were hammering at the thinning line that separated them from Calais.

Was there thrown upon America that peculiar liability of an implied contract whose definition lies in services rendered and taken advantage of? Such is the contention of a certain body of American opinion. It is considered that the American loans were cancelled, in whole or in part, by the military effort of the Allies during this period of American military impotence. Those who adopt this stand also emphasize that the loans were intended to insure a common victory and, furthermore, that in doing so they conferred an economic benefit on Americans, whose profits on some of the war transactions, according to Mr. Mellon, ran as high as 80 per cent. This is emphasized in a Treasury memorandum issued in 1917 wherein it is stated that the loans were essential to America's protection, not only in a military way, but also for her economic welfare, the reason being that the United States was producing more goods than were needed for her own use. The Treasury drew attention to the fact that very little of the money lent went out of the United States; that most of it was

[11] *World's Work*, March, 1927. "How We Nearly Lost the War."
[12] Addressing the American Legion, May 30, 1926.
[13] *Congressional Record*. 69th Congress, 1st Session.

spent in America for war materials and foodstuffs. The truth of the statement is borne out in the following table, given by Albert Rathbone,[14] former Assistant Secretary of the Treasury in charge of foreign loans, summarizing the government transactions with the Allies between April 6, 1917, and November 1, 1920. The net Allied expenditure in the United States under the Liberty Loan Acts exceeded by $830,000,000 the total amount of loans, but it is obvious that a strict accounting was impossible to achieve in the exigencies of war financing and purchasing. The figures are in millions of dollars.

	Great Britain	*France*	*Italy*	*All others*	*Total*
Cash advanced	$4,277	$2,997	$1,631	$680	$ 9,585
Less refunds and repayments	80	31	....	8	119
Net	$4,197	$2,966	$1,631	$672	$ 9,466
Expenditures:					
Munitions and remounts	$1,331	$ 827	$ 259	$ 77	$ 2,494
Munitions for other governments	205	....	....	....	205
Exchange and cotton	1,683	807	87	68	2,645
Cereals	1,375	....	42	5	1,422
Other foods	1,169	295	142	24	1,630
Tobacco	99	41	....	5	145
Other supplies	215	277	63	58	613
Transportation	....	32	100	4	136
Shipping	49	122	1	1	173
Reimbursements	19	1,046	784	24	1,873
Interest	388	269	58	16	731
Maturities	353	290	....	5	648
Relief	16	143	16	363	538
Silver	262	6	....	....	268
Food for Northern Russia	7	....	....	....	7
Purchases from neutrals	....	....	19	....	19
Spec'l for U. S. war purchases in Italy	....	....	25	....	25
Miscellaneous	48	41	56	24	169
Total reported expenditures	$7,219	$4,196	$1,652	$674	$13,741
Less:					
Reimbursement from U. S. credits	$1,854	$ 19	....	....	$ 1,873
U. S. dollar payments for foreign currencies	450	1,026	$ 14	$ 1	1,491
Proceeds of rupee credits and gold from India	81	....	....	....	81
Total deductions	$2,385	$1,045	$ 14	$ 1	$ 3,445
Net expenditures	$4,834	$3,151	$1,638	$673	$10,296

[14] *Foreign Affairs* (N. Y.), April, 1925. "Making War Loans to the Allies."

Do these points change the character of the transactions as loans? Or are they vitiated by the overwhelming significance of America's financial services, leaving them completely unaffected as loans? When the United States accepted the gage of war, the Allies were languishing for want of supplies. Franklin K. Lane, a member of the Wilson Cabinet, writing to his brother, said, "On all sides they are frank in telling of their distress. We did not come in a minute too soon. England and France, I believe, were gone if we had not come in."[15] J. M. Keynes confirms this statement in his book, *The Economic Consequences of the Peace*, in which he says, "Without the assistance of the United States, the Allies could never have won the war." In his address to Congress on April 15, 1917, President Wilson, urging an intensification of the productivity already attuned by war demands to a high pitch, said that America must produce food, clothing, equipment, coal, munitions, and rails, not only for domestic use, "but also for a large part of the nations with whom we have now made common cause." America bent herself without stint to produce these essential commodities for her associates.

The strain of a prolonged war had bereft the Allies of their financial strength, and, in addition to the imported commodities, they required outside credits to pay for them. Fisk[16] quotes a British authority of high standing as follows: "At the very moment that the United States came into the war, the British Government, with commitments in the United States running into hundreds of millions of pounds,[17] was at the end of its tether. It had no means whatever of meeting them." The United States shouldered a double burden while preparing to take her elected place alongside the Allies on the battlefield—as a dispenser of the "sinews of war" in commodities and munitions and as the financier of these supplies. Great Britain, the penultimate financial prop of the Allies, had an additional reason for seeking aid from the

[15] Lane, A. W., and Wall, A. W.: *Letters of Franklin K. Lane*, p. 250.

[16] *The Inter-Ally Debts*, p. 152.

[17] According to British official figures, Great Britain at the time of America's entrance into the war had contracted market loans in the United States to the extent of about $1,480,000,000, while she herself was owed $4,130,000,000 by her allies.

United States; she was in constant need of credits with which to peg the sterling dollar rate of exchange, which, in consequence of the abnormal demands for dollars to pay for swollen war purchases from the United States without any concurrent offsetting by sales to the United States, was sliding against the pound sterling. Balancing by gold shipments proceeded to such lengths that eventually the British had to apply an embargo against the export of gold. To maintain the value of the pound sterling while continuing to purchase American commodities, the British Government had borrowed dollars from New York bankers; they continued to borrow dollars from the American Treasury with which to support exchange by creating an artificial demand for sterling drafts on the New York market at a fixed price. Similar support was also arranged for the franc and the lira but the amount involved was much less.

At the same time it was in the interest of the United States to help the Allies in these exchange operations, since, if the rate had gone excessively against Europe, it would have become increasingly difficult for American manufacturers to sell goods to Europe at the enhanced European currency prices called for by the adverse exchanges, and commerce with those other regions where the sterling bill of exchange was the only bill relied upon would have been seriously inconvenienced. Moreover, if Europe had had to send all its gold to the United States by way of settling its balances, a situation would have arisen after the war which might conceivably have transformed the American gold stock into a Barmecide's feast, for Europe would have had reason for abandoning gold as the medium by which to express and barter its real wealth. "When men have commodities to exchange, or credit to exchange for commodities," says Fullarton in his *Regulation of Currencies*, "you do not prevent such exchanges by denying them a safe and convenient medium for the traffic; you only force them to invent for themselves some expedient less safe, less convenient." These considerations, however, were inactive when the United States was placing her immense resources at the Allies' disposal.

In reply to the argument that the settlement of the debts should

have taken into consideration the inflated profits of American sales to Europe, it is urged that these were diminished by the high prices charged in the Allied countries for supplies for the American armies in Europe. Furthermore, the American armies left a great deal of wealth in the Allied countries, which, even if it bears no comparison with the devastation wrought by the Allies and Associates themselves on French territory, was an important enough item in the economic sense to merit the attention of the Italian war debt negotiators, who pointed out that their economy had not received a similar benefit. Excess profits on American sales to the Allies were also offset in the eyes of some persons by the millions of dollars that private American citizens in their bounty and sympathy poured into Allied countries. Herbert Hoover estimates that down to the middle of 1921 these sums aggregated $1,204,343,000, of which $200,000,000 was used abroad after the armistice to feed and clothe the famine sufferers.

Altogether the American war contribution had an economic value to the Allies of far greater significance than can be represented in the dollars and cents of the debts. Whether it cancelled the lack of effective American military participation up till the middle of 1918 and left the return of the loans unaffected can be determined only on the moral plane. The fact is that the wholesale conscription of the nation's resources placed the United States in the same category of a nation in arms as the other belligerents. In this quality of participation from the outset of her entry into the war, the United States was unlike the financiers of the cooperative wars of European history.

The Debts as Obligations.

The third point of difference between precedent and the war loans of the United States contains the least intangible factors. It is, indeed, the warrant for collecting the debts, and, strictly from the standpoint of a creditor, no other consideration affects it. This point is that the American loans were contractual obligations. After the declaration of war, financial relations with the Allies underwent a radical transformation. Instead of being the merchant of both sides, America stopped her exports to the

Central Powers, speeded up production for the Allies, and undertook to replace private by official financing. Open-market borrowing had almost become closed to the Allies, as much because of the dwindling of the collateral offered as because of investment absorption. Loan transactions were arranged between treasury and treasury and created what came to be known as the war debts, the United States Government standing sponsor for the credit of the Allied governments, which was growing intangible as a business risk by reason of the drain of gold and securities, but which the United States Government was prepared to accept because, in President Wilson's language, America was constrained by her enlistment on the Allied side to pledge "our lives and our fortunes, everything that we are, and everything that we have." The Treasury swept up almost all available free funds left on the American market to re-lend to the Allies.

The businesslike basis of these transactions is best defined, curiously enough, in a British memorandum to France of August 11, 1923, dealing with British loans to France. It is more pertinent to the American loans than to the inter-Ally loans because of the special arrangements that sometimes entered into these latter transactions. "That a French Government Treasury bill given to the British Government for value received is a less binding obligation than a similar one given to a private investor is a doctrine inadmissible both in itself and more especially in view of the circumstances in which these particular loans were contracted," says the memorandum. So far as one can judge from the complicated series of intergovernmental financial transactions, about the only arrangement that bore no earmarks of a loan *qua* loan, and was related to historical subsidies and near-subsidies, was the 1918 arrangement that France and Great Britain entered into with Greece. Under this, the manner of payment for munitions supplied to the Greek forces in 1918 was to be decided after the war in accordance with the financial and economic situation of Greece. Reimbursement could hardly have been contemplated here; as a matter of fact, it was subordinated to the need of securing allegiance and thus was a harking back to eighteenth-century methods.

There were no such arrangements in the American transactions, which were devoid of political entanglements, and were more strictly commercial than any of the other lendings. They were placed on a commercial basis because they were regarded as business transactions, and the evidence is contained in the obligations handed in by the debtor countries.

Contemporaneous construction of these transactions affords verification of the indubitably commercial character of the debts. On the part of the Allies, correspondence is cited in the compilations of the World War Foreign Debt Commission to show that on the eve of borrowing the French Premier and the French Ambassador at Washington engaged in an exchange of cables on the question of the term of amortization.[18] On April 11, 1917, the American Ambassador at Paris cabled the Secretary of State in part as follows:

> The Premier personally expressed the hope to me that no resolution would be introduced or debated in Congress tending to make a gift to the Government of France from the United States, however much the sentiment of goodwill prompting it might be appreciated by the French people.

The Liberty Loan Act, passed on April 24, 1917, declared that "for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to purchase, at par, from such foreign governments then engaged in war with the United States, their obligations hereafter issued." The Act of September 24, 1917, was couched in similar language. Two other acts were passed by Congress, and, in all, these four acts opened credits to the Allies to the extent of $10,000,000,000. In addition, Congress authorized the Secretary of War on May 10, 1918, to sell surplus war materials remaining in Europe in return for demand obligations; and finally credits were extended through the United States

[18] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 61.

Grain Corporation and other organizations for the relief of the starving peoples of post-war Europe. The effect of this legislation was that the Treasury became the final arbiter of the extent of the financial accommodation granted within the limits of the credits and of the consequent purchases made out of those advances. "The dollars we loaned, used in this country by the Allied Governments, were expended for purposes approved by our own governmental agencies," says Mr. Rathbone. In turn, the Treasury accepted the obligations of the various governments. Mr. Rathbone proceeds to give a detailed account of these transactions:

> We did not make loans for purposes which in our judgment were unnecessary and not calculated to help win the war. We kept the amount of our loans down by requiring the countries borrowing of us to use to the extent available their other dollar resources for purposes we approved. In conjunction with Great Britain we furnished the finance required to effect necessary war purchases of other Allied Governments in neutral markets. Upon final adjustment we held the promissory notes of each Allied Government to which we had made loans in an amount corresponding with the financial assistance we had furnished it. For its own war purposes in Great Britain, France and Italy, the United States did not borrow pounds or francs or lire. Our Treasury was obliged to procure these currencies for the use of our army abroad. We bought pounds, francs and lire from the Governments of Great Britain, France and Italy, and made payments therefor in dollars here. The dollars thus obtained by Great Britain, France, and Italy were applied by them toward the cost of their war purchases here, and thus the amount of the dollar loans required by these countries from our Treasury was diminished in a corresponding sum . . . Similarly, Great Britain, loaning to France and Italy much larger values than the British requirements for francs and lire, paid for the francs and lire required for British use by crediting to France and Italy the sterling equivalent of the francs and lire turned over to her.

In the course of the diplomatic controversies that burst out after the settlements over the complicated facts of the war debts, Great Britain made use of this statement by Mr. Rathbone to support her assertion that all the dollars accruing to her by reason of American purchases in Great Britain were used to buy

commodities in the United States. This was undoubtedly true, as is shown above; the dollars were placed to British credit in the United States, a fact which Secretary Mellon acknowledged but which, he said, did not affect his contention that whereas the dollars Great Britain received from the American Government increased her available cash resources, the promissory notes received by the United States did not increase the available cash resources in this country. "The fact that the cash employed in purchasing pounds was borrowed from American citizens and not from the British Government is the distinguishing difference, and any program of cancellation which does not allow for this difference gives the United States no credit on the amount of its war debt for purchases made in Great Britain and other countries," said the Secretary of the Treasury.[19] This was why the United States came out of the war owing none but owed by all.

There was no common pool into which all the Allies could dip at will, but, on the contrary, as Mr. Rathbone's article shows, a definite understanding that each belligerent should pay for any resources furnished by a co-belligerent. As for the debts to the United States contracted in the process, there was never any question but that repayment in full was exigible by the lending governments in accordance with the terms of the obligations.

The general principle underlying these obligations was that the Allies should not pay less for accommodation than the United States had incurred in raising the funds from American citizens. Thus, as the Ways and Means Committee said, in reporting on the first Liberty loan bill, the loan "will take care of itself and will not have to be met by taxation in the future." The history of the fixation of the rate of interest on the war debt is consistent with this provision. Upon approval of the first Liberty bond act on April 24, 1917, the Treasury, in order to meet the emergency then existing, began immediately to make advances. As the first few advances were made before it had been definitely determined what rate of interest the first Liberty bonds should bear, the United States accepted obligations from foreign governments bearing interest at

[19] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 629.

rates different from those borne by these bonds. The first obligations taken bore interest at 3 per cent and 3¼ per cent per annum to a short maturity date. Then they became demand obligations, similar to all subsequent obligations for cash advances, and bore interest at 3½ per cent, the rate borne by the first Liberty bonds. Thus the rate borne by all foreign obligations taken under the first Liberty bond act was fixed at the rate that the government had to pay to its bondholders in order to lend their money to the Allies.

The Liberty bond acts further stipulated that if any of the bonds sold under such authority should be converted later into bonds of the United States bearing a higher rate of interest, a proportionate part of the obligations of foreign governments for cash advances should be also converted in like manner into obligations bearing higher rates. In view of these provisions, it became necessary upon each interest-payment date of the foreign obligations to determine what proportion of the outstanding Liberty bonds of the United States had been converted into bonds bearing higher rates of interest, in order that the same proportionate part of the foreign obligations could likewise be converted. This procedure entailed a great deal of clerical labor, and, on account of the many complications involved, it was difficult to determine exactly the amount converted up to an interest-payment date; so adjustments became sometimes necessary. On February 26, 1918, the Treasury began to take obligations from foreign governments bearing interest at 5 per cent, with the understanding that the matter of the rates borne by the other foreign obligations held at that time would have subsequent attention. Then on October 31, 1918, the Treasury advised the debtors that, since the cost of the money to the United States was about 5 per cent—in view of tax-exemption features and costs attendant upon the raising of this money,—the interest due November 15, 1918, for the previous six months on the various obligations then held would be computed so as to return interest on the entire amount at the rate of 5 per cent. The foreign representatives, upon instructions from their governments, agreed to the change in rate. All of the obligations received by the Treasury for cash advances on and after February 26, 1918, therefore, bore interest on their face at the rate of 5

per cent from date, and all obligations received prior to February 26, 1918, at lower rates, bore interest at 5 per cent from May 15, 1918.

The obligations acquired by the United States on account of the sale on credit of surplus war materials and relief supplies generally bore interest at 5 per cent, although certain obligations given by Austria, Czechoslovakia, Hungary, and Poland for relief supplies furnished through the United States Grain Corporation bore interest at the rate of 6 per cent. The acts under which these obligations were acquired did not stipulate any rate of interest, but left the matter of terms to the discretion of the President and heads of departments. The interest on all obligations, except Russian, was paid in full up to and including April 15 and May 15, 1919, and accrued interest up till debt funding was fixed in general at 4¼ per cent.

FUNDING THE DEBTS

Even while the war was in progress many suggestions were bruited among the European chancelleries for the readjustment of intergovernmental war indebtedness. Communicated informally to the American delegates to the Peace Conference, they eventually became the subject of direct overtures. Newspapers in Allied countries went so far as to urge all-round cancellation so that the principal financial settlement of the war might be concerned solely with reparations from Germany. The United States Treasury scotched all such proposals in communications from Carter Glass, Secretary of the Treasury, and Albert Rathbone. "I cannot see that any country is concerned in such arrangements other than the borrowing country and the particular countries which have made advances to it," said Secretary Glass. To M. de Billy, French Deputy High Commissioner at Washington, on March 8, 1919,[20] Mr. Rathbone declared that the Treasury Department "will not assent to any discussion at the Peace Conference, or elsewhere, of any plan or arrangement for the release, consolidation, or reapportionment of the obligations of foreign governments held by the United States." This had reference to

[20] Senate Document No. 86, 67th Congress, 2d Session.

an Allied proposal that the Peace Conference should consider "interallied agreements as to consolidation, reapportionment and reassumption of war debts." Mr. Rathbone warned M. de Billy that American advances could not be continued "to any Allied Government which is lending its support to any plan which would create uncertainty as to its due payment of advances." Apart from the premature nature of these proposals, they were generally looked upon in the United States, where a businesslike attitude was beginning to displace sentiment, as an attempt by a debtor to escape his commitments. Then Great Britain proceeded a step further. Having recovered from the psychological effects of the war to the extent that she placed reconstruction above reparations, she pressed for reconsideration of the United States Treasury position so as to win general adhesion to a plan for the reciprocal wiping out of all war liabilities, including reparations, when Europe might be able to cease bickering and return to work and purchasing power. Britain wished to re-start Europe along the normal road of trading and to get the pound sterling back to par. On December 11, 1919, the British Chancellor of the Exchequer, Austen Chamberlain, appealed for coöperation to wipe clean the slate of indebtedness, since "the moral effect would even be a greater practical change, and fresh hope and confidence would spring up everywhere." His overture met with a frigid reception in Washington.

The French and Italians remained seemingly indifferent. They regarded the debts as illusory, something that policies, let alone already confused budgets, need not take account of. The French attitude, in particular, exasperated American opinion; for it seemed to take considerable trimming for granted, and appeared to regard as impertinent any reminder of the score against France while she was struggling with her twin harassments of reparations and security, the one to restore her devastated areas, and the other to circumvent any future German attempt at *revanche*. Seeing that she could not obtain a pact of guarantee from Great Britain and the United States, France began to weld to herself new allies with whom to build a new coalition against Germany, an insurance of safety in pre-war diplomatic terminology but a perpetuation of

strife in the facts of national experience. This recrudescence of European rivalries was repugnant to the American mind, which thought in the simpler terms of negotiation with the thing feared rather than in its encirclement with hostility. In time France saw in this direct and peaceful method of approach the best form of security, and strove as zealously for European appeasement as any other country in Europe, but in the immediate post-war years her statesmen exhumed all the diplomatic devices of combinations and counter-combinations. Mention of debts while such machinations were being brewed acted only as an irritant to inflamed French opinion, which wished to put all such matters in the background (even the complicated debts owed to France principally by successive Russian governments) until Germany had been mulcted in the dues of the Treaty of Versailles.

For all these reasons the United States was deaf when reminded of French poverty, and hardened her heart to calls for the readjustment of debts which she regarded as business affairs. She also steadfastly refused to entertain the pooling of obligations whose settlement she made clear concerned only the immediate debtor and creditor.

Great Britain admitted the justification of debt collection and testified to her good faith by making payments before funding. But she did not feel the same urge as the desolation of the homeland furnished France to hold fast to the Treaty in a world of slipping credits and mounting debts. She wished to provide Germany with a breathing spell, with or without an American change of front; but in view of the American stand she felt she could not take any unilateral course of cancellation because she was owed by her Allies (including Russian debts and debts outside of the American category of war debt) twice as much as she owed America. There did not seem much hope that American policy would change; it had the support of American public opinion, which based its opposition to debt abatement almost as much on the ground that exaction of payment would check military adventuring as on that of the ethics of abiding by international engagements, the indifference toward which in some Allied countries was widely regarded as endangering the standards of world society.

So far the Allies had voiced their opinion on the debts separately; on May 16, 1920, Great Britain and France joined together at the Hythe Conference in urging a parallel liquidation of debts and reparations. France still insisted on mulcting Germany heavily, but agreed on the unity of the problem, differing from Great Britain in that she was not prepared to abate one tittle of her rights under the Treaty of Versailles unless such abatement were accompanied by reductions on the claims held against her by Great Britain and the United States, with a considerable balance in favor of France. Great Britain was in a dilemma and communicated Europe's difficulties frankly to President Wilson on August 5, 1920, in the hope that he would reassume the mantle of *deus ex machina*. But the President, maintaining a policy insisted upon by the Treasury Department and supported by public opinion, repudiated the European view of the inseparability of debts and reparations, and called upon the Allies to embark on debt-funding negotiations with Washington.

Little progress could be made toward meeting the American requirement as long as Great Britain tried to keep reparations pace with France, but when the rift occurred over the French occupation of the Ruhr, Great Britain decided to waste no more time in funding her bill with the United States. Within a fortnight after the French move, Stanley Baldwin, Chancellor of the Exchequer, sailed for the United States, and an agreement was finally signed on June 19, 1923. It was ratified by the British after much heart-searching. Only the paramount necessity to Great Britain of re-establishing British financial and political prestige and the conviction of many influential authorities that a general resettlement in the light of economic and political experience would be forced upon the United States, persuaded the British to agree to the Mellon-Baldwin terms, which they felt would bring about a strain on the pound sterling.

Opposition also developed in the Senate against any ratification of the agreement. Not that it was felt to be too onerous; it was felt to be too lenient. In general, however, sentiment appeared to support President Harding when he declared in words that might

also be regarded as the epitome of the American attitude on the war debts at this time:

> The call of the world today is for the integrity of agreements, the sanctity of covenants, the validity of contracts. Here is a first clearing of the war-clouded skies in a debt-burdened world, and the sincere commitment of one great nation to validate its financial pledges and discharge its obligations in the highest sense of financial honor.

Probably the pact had more significance as a determinant of war debt policy than any other factor. It bound the other debtors by example to the principle of war debt acquittance; it put the American policy in a groove of formalism; it set the pace for the treatment of other debtors by allowing of no other deviation than "capacity to pay."

The British Government had made plain its attitude on the war accounts in a note signed on August 1, 1922, by Lord Balfour, Secretary of State for Foreign Affairs, which, after linking debts and reparations, and offering again to remit its credits and to surrender its share of German reparations as a step in the writing off of the whole body of indebtedness, declared that in no circumstances would more be asked of British debtors than was necessary to pay the United States. In view of America's inflexibility, it was the last-named statement that constituted the policy of the Balfour Note. How far this setting off of debts and credits is working out is periodically revealed in the House of Commons by Winston Churchill, Chancellor of the Exchequer. In 1927, British receipts from war debts and reparations were £26,250,000 and her payments to the United States £32,844,755; after 1930, Great Britain should obtain from reparation and debt payments £33,000,000 a year and should pay £38,000,000 a year to the United States. A study of the figures shows that on the basis of existing schedules of receipts and payments the gap will not be bridged until 1967, although beginning with 1933 the balance against Great Britain will be reduced to £1,800,000 a year.

The Balfour Note won official respect neither from the United States nor from the Allies. It could not but place the United States in the light of an exigent creditor, and, being issued when the

British were on the point of funding their American debt, gave offense in the United States as an effort to prejudice the coming negotiations. The Note also contained a specific cause for dispute. In referring to the advances made by America to the continental Allies it stated that the United States "insisted in substance, if not in form, that, though our Allies were to spend the money, it was only upon our security that they were prepared to lend it." This was vigorously controverted by the press of the United States and in Great Britain by the *Economist*, and apparently arose out of the use that was made of the efficient purchasing organization built up during the war by Great Britain. In these cases, England accepted reimbursement from the country for which she acted as purchasing agent, the reimbursement taking the form of money individually borrowed from the United States. In only one case did Great Britain make advances after the United States entered the war for purchases by any of the Allies in the United States. This exception was a transaction for Russia's account, but the amount involved was unimportant and had reference to contracts entered into by Russia and guaranteed by Great Britain before April 6, 1917. As we have seen, each nation received advances to meet its own needs and signed its own demand notes.

The statement also gave umbrage to the French, but they were principally annoyed because of the persistence with which the British lumped reparations from Germany with British credits from the Allies, instead of drawing a clear line between reparations and debts. Poincaré replied stiffly to the Note, dwelling on the difference between reparations from enemies and debts among friends and on the need for deferring payment of the latter until the former had been collected. He pointed out the distinction between French purchases of war material after the armistice, which he called "commercial" debt, and other war debt, which he called "political" debt. France had met no interest obligations on her "political" debt but had remitted 5 per cent regularly on the "commercial" portion, which amounted to $407,000,000. This sum was subsequently merged in the Mellon-Bérenger settlement, but if the French do not ratify the agreement by August 1, 1929,

they will be under obligation to repay their "commercial" obligation on that date.

The French distinction is one of many that have been drawn in connection with the "morality" of repayment. Who could distinguish between a supply contract made and fulfilled before the war ended and one which, though entered into while the war was in progress, was not executed until after the war? Fisk says that half of the post-armistice expenditures of $2,000,000,000 were made to clear up war accounts. It is a conceivable figure when one bears in mind the magnitude of the financial and commercial operations that got under way in 1918. They were governed in a systematic way. Instead of giving the Allies credits and cash to meet all their commitments for war purposes, the United States established credits and paid out the cash required from day to day. It necessarily follows that the United States Government was committed to establish the credits and advance the cash necessary to make future payments on contracts approved by the War Industries Board even though such transactions fell due after the armistice. Moreover, war-time commitments could not be curtailed till the prospect of peace that the armistice ushered in had taken on a more permanent aspect. Relief credits might also be classified as war commitments, for they were induced, according to the 1920 Report of the Treasury, by the fear of the spread of anarchy in Europe consequent upon post-war adjustment.

Post-armistice transactions that at first sight are more susceptible of classification as non-war items were on account of foodstuffs and surplus war stocks. After the armistice the Treasury began to reduce lending as rapidly as possible, and "absolutely declined," according to Mr. Rathbone, "to make post-armistice loans for reconstruction or trade purposes." The action of the Treasury induced the British to cancel their buying orders in the United States, throwing American exporters into consternation. Herbert Hoover, as head of the American Food Administration, communicated their difficulties to the President:

> Our manufacturers have enormous stocks . . . in hand ready for delivery. While we can protect our assurances given producers in many commodities, the most acute situation is in pork products which

are perishable and must be exported. . . . If there should be no remedy to this situation we shall have a debacle in the American markets and with the advances of several hundred million dollars now outstanding from the bonus to the pork produce industry, we shall not only be precipitated into a financial crisis but shall betray the American farmer who has engaged himself to these ends. The surplus is so large that there can be no absorption of it in the United States, and being perishable, it will go to waste.[21]

As a result, credits were continued in order to dispose of these supplies, which were badly needed in Europe. It is arguable whether there is more than a shade of difference between the standing of these credits and that of the definite war transactions, especially if one holds as self-evident that during war-time the supply of foodstuffs and the supply of munitions could not be differentiated in the needs of belligerent nations.

In general, any attempt at classification of all the loans according to a "moral" obligation of reimbursement is an attempt at drawing hair lines and is not fruitful of distinction. From the larger standpoint of policy, the debts must be regarded as an indivisible whole, save for certain special advances, principally to Great Britain, whose prompt repayment showed clearly their peculiar nature, and for minor advances to neutrals.

Formulas of Negotiation.

The authority to make the loans to the Allies was vested in the Treasury, but the task of obtaining their liquidation into long-term obligations was given to a special World War Debt Commission, created by the act of February 9, 1922. Nothing in the act, it was stated, should be construed as empowering the Commission to extend the time of maturity for new bonds beyond June 15, 1947, or to fix the rate of interest at less than 4¼ per cent; but these terms of reference were early abandoned as too strict even for application to the strongest debtor, Great Britain. The option left to the debtors was either to sign on the dotted line or to decline to sign at all. Much broader powers were conceded on February 28, 1923, allowing the Commission to make "just" set-

[21] National Industrial Conference Board, *The Inter-Ally Debts and the United States. Preliminary Study,* p. 53.

tlements subject to Congressional approval. The consequent varied settlements submitted to Congress caused some debate, particularly the British; the French settlement, which the Senate has still to ratify, may yet arouse controversy, although in 1927 there was a tendency to expedite the conclusion of arrangements that had been so difficult to persuade the debtors to enter into.

Despite the added discretionary authority now vested in the Commission, no state showed any anxiety to follow the British mission to Washington except Finland, which had been granted a small post-war credit. The principal war debtors other than Great Britain were immersed in domestic rehabilitation and could not know whether they would be able to fulfil any commitment at Washington. American diplomatic pressure continued, and to it in 1925 was allied a new device of compulsion; it was given out by the State Department that no private bankers' loan could be approved to those debtor states, or their component subdivisions, which had not compounded their war accounts with the United States. Great Britain also began to use this lever to persuade her own negligent debtors to pay up.

Because of the debtors' lackadaisical attitude, the World War Debt Commission, originally created for three years, had to obtain a further lease of life for another two years, ended February 9, 1927, when they had secured agreements from all of the main debtors. It was held unnecessary to ask for further extension because agreements had been concluded providing for the funding of these obligations in principal amount of $9,811,094,094, or over 97 per cent of those held when the Commission started to function. By the end of 1927, only Russia, Armenia, and Greece had failed to come to terms; of these three, Armenia had passed out of existence as a sovereign state, Russia had not been recognized by the United States, and the Greek situation was under negotiation.[22] France had not ratified her agreement but had continued to make payments under it; Austria had been granted a 20-year moratorium until June 1, 1943; Cuba and Liberia had liquidated the entire amount borrowed; and the Nicaraguan debts

[22] The financial relation between the American and the Greek Governments will be treated in a future volume.

had been considered as funded in view of the fact that payments were being made consistently.

The Commission were told to negotiate "just" settlements. "Just" is a two-edged word, meaning consideration of the debtor in the terminology of Representative Piatt Andrew and consideration of the creditor in that of Representative Theodore Burton. What it meant to the Commission as a whole may be adduced from the formulas they adopted. The central principle was the integrity of the principal amounts of the obligations. In the words of the Chairman, Secretary Mellon, the Commission felt that "repayment of principal is essential in order that the debtor might feel that it had paid its debt in full and that we might know that we had our capital returned to us."[23] Another principle to be maintained intact was the extension of the amortization period to 62 years in the main settlements. In the negotiations with Great Britain the Commission realized that repayment within a generation might be a difficult proceeding for a country convalescing from financial exhaustion. "It seemed to have been understood," said Garrard Winston, former Under Secretary of the Treasury and Secretary of the Commission, in the course of a round table conference at the University of Chicago in 1928, "that the principal of the debt should be repaid by means of a cumulative sinking fund of one-half of 1 per cent. Applying this sinking fund and the agreed interest rates the payment of principal would be completed in 62 years."

The third principle was settlement according to "capacity to pay," a phrase that has entered largely into the popular controversies arising out of the settlements. It is explained in the reports of the Commission. The Commissioners "felt that the lack of capacity of a government, . . . can be readily met by appropriate adjustment or modification of the rates of interest to be paid during the period of repayment of principal. And in examining the capacity of payment the Commission looks not only at the immediate capacity but estimates so far as it is able to do so, the future development of the nations concerned."[24] In this effort to gauge

[23] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 289.

[24] *Ibid.*, p. 38.

present and future capacity, the Commission were assisted by the overseas agencies of the American Government, and perhaps for this reason there was at first a tendency to use quantitative measurements. A nation's ability to pay depends upon factors other than economic, intangible as well as tangible, such as those residing in Poincarés and Mussolinis and the public temper. No matter how potentially rich the country, its ability or willingness to pay might in certain circumstances become negligible, as in forms of passive resistance, non-coöperation, or active hostility. British and American ability to pay ship money and stamp tax respectively dropped considerably after John Hampden and Samuel Adams had inaugurated their anti-payment campaigns. This aspect of "capacity" might have been taken cognizance of after the fall of Caillaux consequent upon his failure to come to terms with the United States, since French ability to pay immediately began to fall by reason of political disturbances, quite apart from the facts and potentialities of French economy, and resulted in the negotiation of a speedy agreement with M. Caillaux's successor, M. Bérenger.

"Capacity to pay" could not be scientific amid the post-war welter of political complications and economic necessities. Among the latter was the return to the gold standard; American debt policy could not be pushed to the extreme demand from fear of inviting retrogression in the hoped-for progress toward monetary stability in Europe. Nor could it be assessed in a strictly economic sense; nations are not collections of robots responding to artificial stimuli, and, despite all of the intelligence at the disposal of the Commission, he would have been a wise man who could have foretold early in 1926 just what French "capacity" would be at the end of 1927, let alone what it will be two generations hence. At best, "capacity" is almost as impossible to evaluate as the degree of a belligerent's war contribution. That it was subordinated to the usual diplomatic practice, which is to obtain for your country as much advantage as you can, is, indeed, the testimony of Secretary Mellon, who, looking back on the settlements, said,[25] "We have, I believe, made for the United States the most favorable settlements

[25] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 302.

that could be obtained short of force." He further said, in answering possible critics of the settlements, "The only other alternative which they might urge is that the United States go to war to collect."[26]

The United States throughout these negotiations steadfastly refused to accede to any request for a "safeguard clause," which was intended to secure relief for those debtors whose interest in reparations should fail to materialize. The French made much of this proposal and were successful in obtaining certain assurances from Great Britain by means of an exchange of letters when the Franco-British debt was funded. But these were merely a concession to French sentiment, since any curtailment of German reparations would affect the Balfour Note policy of the British Government, thus necessitating a reconsideration of debts on their side as well as on the French. This principle of the Balfour Note was also written into the Italian-British agreement.

The standpoint that debts and reparations were distinct and separate affairs had passed from President Wilson down through President Harding to President Coolidge as the expressed corner stone of American debt funding policy. One of the few Paris attitudes of President Wilson to survive in the United States, it had become by constant reiteration an *idée fixe*. Yet the admission of the "capacity to pay" formula was in itself a tacit acknowledgment of the link. At the time of their settlements with the United States, France, Belgium, and Italy all looked to Germany for the funds wherewith to pay Britain and the United States. French ability to pay in 1926 depended most obviously upon the extent of her collections from Germany. One of the important factors in France's ability to pay the 1871 indemnity was the accumulated reserve of wealth in the foreign securities owned by her nationals. By 1914, France had retrieved her position as a nation of *rentiers*, but during the war her holdings of Russian, Turkish, Bulgarian, Rumanian, and Serbian securities depreciated so rapidly that the French Government was able to mobilize only about two million francs. Little progress had been made by 1926 to retrieve this

[26] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 597.

position, while its own war debts seemed mainly uncollectible. In these circumstances, German reparations were important assets to France in connection with the payment of her debt to the United States. Under the Dawes Plan, France in 1927 received roughly $191,000,000 from Germany, against which she had to make remittances of approximately $30,000,000 each to the United States and Great Britain on war debt account. She had also to make considerable payments to the Bank of England for war-time advances, but still had a handsome net surplus.

Secretary Mellon himself stated the relation between debts and reparations in a letter to President Hibben, of Princeton University, on March 15, 1927, when he said,[27] "It is obvious that your statement that the debt agreements which we have made impose a tremendous burden of taxation for the next two generations on friendly countries, is not accurate, since the sums paid us will not come from taxation, but will be more than met by the payments to be exacted from Germany." The United States refused to pay formal tribute to this fact in the agreement with France; apparently for two reasons, first, that even if reparations received by France were subsequently reduced, other factors might offset this injury to her ability to pay her debt to the United States, and, secondly, that a settlement on such terms would be so indefinitive as to lead to constant controversy.

The American veto on the attempt to conjoin debts and reparations was partly a reaction from conditions in Europe, when French coercion against Germany was pursuing its checkered career; that it was not lifted after the Dawes Plan seems to have been due to the fact that it had then become not only a hard-and-fast ruling, but also the principal support of internationally negotiated agreements. It is difficult for statesmanship to turn its back on policies that have been consolidated into precedents.

[27] International Conciliation. No. 230. May, 1927. This statement was later modified to exclude Great Britain, which, owing to a typographical error, had been omitted from the original statement.

THE SETTLEMENTS

THE following table shows the total principal and interest to be paid to the United States by thirteen war debtors:

TOTAL PRINCIPAL AND INTEREST TO BE PAID TO THE UNITED STATES BY THIRTEEN WAR DEBTORS[28]

Country	*Principal*	*Interest*	*Total*	*Average interest rate (approximate) over the whole period of payments, per cent*
Great Britain	$ 4,600,000,000	$ 6,505,965,000.00	$11,105,965,000.00	3.3
Finland	9,000,000	12,695,055.00	21,695,055.00	3.3
Hungary	1,939,000	2,754,240.00	4,693,240.00	3.3
Poland	178,560,000	257,127,550.00	435,687,550.00	3.3
Esthonia	13,830,000	19,501,140.00	33,331,140.00	3.3
Latvia	5,775,000	8,183,635.00	13,958,635.00	3.3
Lithuania	6,030,000	8,501,940.00	14,531,940.00	3.3
Czechoslovakia	115,000,000	197,811,433.88[29]	312,811,433.88	3.3
Rumania	44,590,000	77,916,260.05[29]	122,506,260.05	3.3
Belgium	417,780,000	310,050,500.00	727,830,500.00	1.8
France	4,025,000,000	2,822,674,104.17	6,847,674,104.17	1.6
Yugoslavia	62,850,000	32,327,635.00	95,177,635.00	1.0
Italy	2,042,000,000	365,677,500.00	2,407,677,500.00	0.4
Total	$11,522,354,000	$10,621,185,993.10	$22,143,539,993.10	

In view of the hugeness of the sums involved, it was necessary to find practicable terms of repayment to replace the demand obligations and these were mostly secured by spreading payments on account of principal and interest over a period of years. The repayment of the original principal amount was provided for in all cases. But interest payments total almost as much as principal repayment, and it was around the rate to be charged in the settlements that negotiation revolved. The variability in the settlements reveal the application of the "capacity to pay" formula in the fixation of the rate of interest.

The point of major interest to the United States is the extent of the debtor's contribution to the full value of the debt, which, in

[28] *Combined Annual Reports of the World War Foreign Debt Commission.*

[29] Includes deferred payments which will be funded into principal.

the official American reckoning, is the amount of debt prior to funding, including interest accrued and unpaid up till December 15, 1922. If no interest were chargeable, the task of showing the extent of this contribution would be easy, but money, like the grain of mustard seed, expands with cumulative power, and $100 payable today is therefore more valuable than $100 due in 62 years, since the former amount could be multiplied many times over in those 62 years. Thus we cannot compare the amount of the debts prior to funding with the sum total to be received at the end of 62 years. We must calculate the "present values" of the remittances; these, not the settlements themselves, are the accepted base of comparison with the amount of debt prior to funding in gauging the debtor's contribution to the full value of the debt. One payment of $62 would completely discharge an obligation of $62 and constitute fulfilment of a demand obligation; the full value of a loan would be received. If payment were made at the rate of $1 a year for 62 years without interest, only a part of the full value of a loan would be received. It follows that a part of the full value of the debt would be cancelled. What this concession signifies may be estimated variously, and is dependent upon a rate of discount arbitrarily chosen. If we choose 4¼ per cent, the present value of a $1 annuity for 62 years would be a little over $21; if 3 per cent, the present value would be $28.

It has sometimes been urged that present worth should be figured at the rate of the cost of foreign money to the debtor. In the case of the debtors to the United States, this would be from 5 per cent to 7 per cent. But this is inadmissible if we are gauging full value to the *creditor*.

Is it not fair to assume that actual value is the capitalization of annual remittances at the interest rate that the United States Government had to pay to American citizens in order to raise the funds lent to the debtors? If these debtors repaid the United States at 4¼ per cent, then we should be reimbursed in full for our outlay. This is a reasoning sometimes indulged in, but it is fallacious because the maturity dates of the Libertys are much shorter than those of the debt settlements and, more important still, because the Treasury has already embarked upon a policy of retiring the

Libertys before due date or converting them into low interest bearing notes as part of a fiscal program destined not only to take advantage of the return to normal interest rates, but also to extinguish the whole of the public debt.

War debt policy and public debt policy are not easy to reconcile. When it became evident that the Treasury could sell securities with a maturity in excess of two or three years at 3½ per cent, this was obviously the time to consider the relief of the taxpayer by refunding our high-priced bonds. It also became the stated policy of the Treasury to apply all debt repayments to public debt retirement. Yet the theory of the acts governing them was that Liberty bonds were to be covered by the repayment of the consequential war debts. These debts were considered as "bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued under the authority of this Act.[30] What has happened to the war debts? They have been funded into long-time obligations which mature in 62 years. What is happening to the original Libertys? They are marked down for extinction along with the remainder of the public debt by an abundant sinking fund, bountiful revenue surpluses, and the easier state of the money market. High-priced Libertys stood in the way of reducing the interest rate of the public debt. At the end of 1927 the carrying out of this program had progressed so satisfactorily that the early extinction of the public debt was spoken of, retirement having proceeded for the last eight years at the rate of about a billion dollars a year, leaving the public debt in the neighborhood of $18,500,000,000. Taking into account the steady growth of the sinking fund, the expectation of continued surpluses, and increase in the payments of foreign obligations, it is hoped to extinguish the public debt in about fifteen years, bureaucracy, porkbarrel legislation, and other mishaps permitting.[31] The result of these fiscal achievements, which are unparalleled in the history of public finance, had reduced the average

[30] First Liberty Loan Act, April 24, 1917, Section 2.

[31] "At the present rate of redemption it will take Great Britain 150 years to pay off her internal war debt."—Philip Snowden, former British Chancellor of the Exchequer, *Atlantic Monthly*, Sept., 1926.

interest on public debt by December 31, 1927, to 3.88 per cent.[32] The war debts are scheduled to live on for half a century, testifying in the advancing stature of the annual payments to the original prolific sturdiness of their declining parent, the Liberty bonds.

It follows that the going rate of money to the creditor is the only standard of comparison in finding out the contribution of the debtor to the full value of his debt. Says Mr. Mellon:

> From the United States' standpoint, therefore, the question of whether a particular settlement represents a reduction in the debt depends on whether the interest charged over the entire period of the agreement is less than the average cost to us of money during that period. The flexibility in debt settlements is found in the interest rate to be charged.[33]

What is the present value of money to the United States Government? We were able to borrow in peace years before 1914 at rates ranging from 2 per cent to 3 per cent. Rates then became inflated, and the war loans were contracted at an interest in the region of 4¼ per cent; but the price of borrowing has now returned almost to pre-war levels, and we are able to raise money at between 3 and 3½ per cent. Secretary Mellon himself looks forward to a downward tendency, and, imagining conditions over a period of 62 years, favors 3 per cent as the index for computing the actual worth of the settlements to the United States. In a statement to the Ways and Means Committee of the House on May 20, 1926, he said: "If we assume that the average cost of money to the United States for the next 62 years will approach a 3 per cent basis, and if we determine the present value of the French annuities on that basis, we arrive at a figure which would approximate their actual value today."[34]

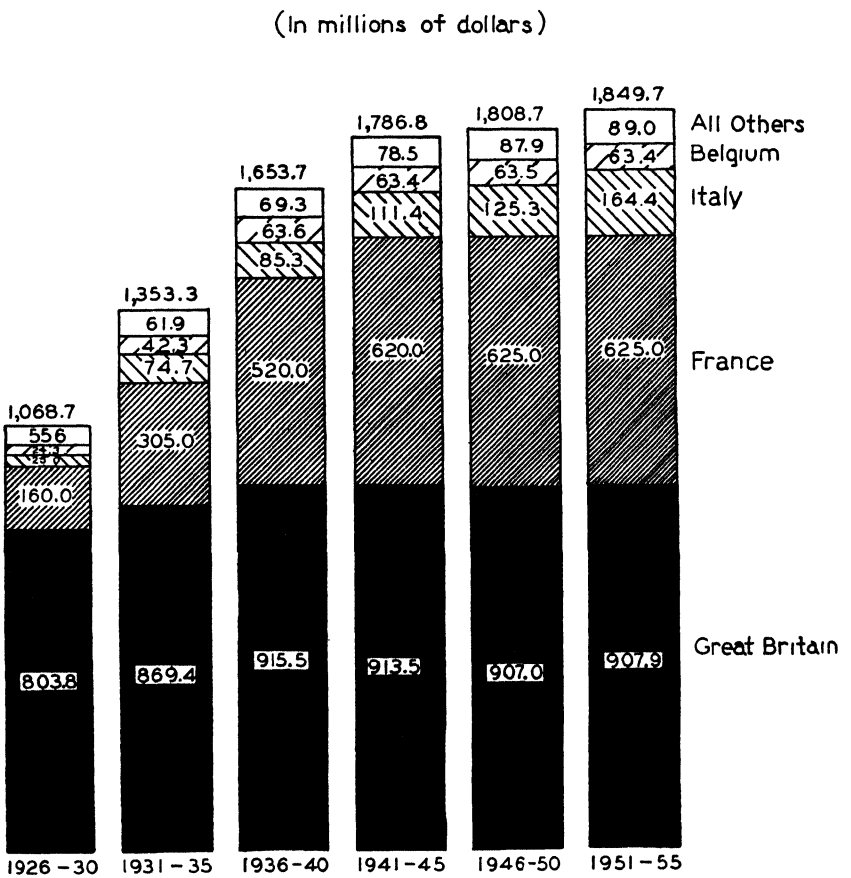
When Secretary Mellon chose 3 per cent as a point of departure

[32] Ogden L. Mills, Under Secretary of the Treasury, in a speech at Albany, *Journal of Commerce* (N. Y.), March 10, 1928. Conditions altered a good deal after this date, and the Treasury had to offer 4½ per cent in connection with its September financing.

[33] Statement by Secretary Mellon before the Ways and Means Committee of the House of Representatives, January 4, 1926. *Combined Annual Reports of the World War Foreign Debt Commission*, p. 593.

[34] *Ibid.*, p. 421. But see footnote (32).

in assessing the present value of the payments he was trying to gain Congressional adherence to the agreement with France. This was a task of persuasion, for Congress, in delegating liquidation to the Funding Commission, had been reluctant to substitute discretionary power for strictly limited authority. They examined the settlements with the care of a creditor anxious to secure substantial repayment. In submitting terms that constituted generous concessions when compared with the original Congressional requirements, Mr. Mellon had therefore to educate approval by presenting them as businesslike contributions to the repayment of



Remittances by quinquenniums of war debtors of the United States.

a commercial debt. For this purpose he worked out the present value of the French payments at 3 per cent, compared the result with the debt prior to funding, and showed that, although the United States had been generous, she had secured as much of a "deal" as it was possible to get. This was justice to the creditor.

The Secretary was placed between the Scylla and Charybdis of two sets of judges; the other judgment came from that section of public opinion which, for reasons already stated, regarded debt collection in whole or in part as unjustifiable. In various public statements the Secretary exhibited the present value of the payments sometimes at 4¼ per cent and sometimes at 5 per cent, and either calculation proved that the settlements fell much below payment in full, or the debt prior to funding, and so represented substantial cancellation. This was justice to the debtor.

Having the Treasury's imprimatur on 3 per cent as the proper discount rate for assessing present value, we may now see how it compares in detail with the interest charged the various debtors.[85] The minor settlements are excluded from detailed comment inasmuch as most of them are irrelevant to the question of the war debts proper.

Great Britain: Great Britain originally borrowed $4,074,818,358.44. The principal of this debt, funded with accrued interest, is $4,600,000,000, and the total amount collectible is $11,105,965,000. Interest is fixed at 3 per cent for the first 10 years, and 3½ per cent for the remaining 52 years, making the total annual payments, principal and interest, about $160,000,000 a year during the first 10 years, and about $180,000,000 during the remainder of the 62 year period. The approximate average interest rate works out at 3.306 per cent.

Belgium: This settlement represents an important departure from the principles of the British settlement. The debt is divided into two parts—that contracted before and that contracted after the armistice. The total amount of the original debt is $377,029,570.06. As a result of the debt negotiations the pre-armistice debt is fixed at $171,780,000, which was the amount agreed upon at Paris during the Peace Conference and approved by President

[85] Moulton and Pasvolsky, *World War Debt Settlements.*

Wilson for inclusion in the Belgian war debt, which, under the Treaty of Versailles, was to be assumed in full by Germany. This plan was not adopted by the United States because she did not ratify the Treaty; instead, the United States decided to collect no interest on the pre-armistice portion. The total sum is to be discharged in 62 annuities, starting with $1,000,000 in 1926 and rising gradually to $2,900,000 in 1932 until 1987, when the last instalment will be $2,280,000. The post-armistice debt amounts with accrued interest to $246,000,000, to be paid over 62 years. Interest in the first few years works out at much less than 3 per cent; starting with the eleventh year, the rate is advanced to 3.5 per cent. The total amount to be paid in principal and interest amounts to $727,830,500, and the average interest is 1.79 per cent.

France: The original debt was $3,340,416,043.72. The principal is fixed at $4,025,000,000. During the first two years, 1926 and 1927, France is to pay $30,000,000 a year on account of principal; during the next two years, $32,500,000 a year; and in the fifth year, $35,000,000. Then the principal drops to $1,350,000 for the sixth year; rises to $11,363,500 in the seventh year; to $21,477,135 in the eighth; $36,000,000 in the ninth; $42,000,000 in the tenth; and for the next 35 years fluctuates between $51,000,000 and $80,000,000, rising gradually to a maximum of $100,000,000 during the last six years of the paying period. No interest at all is charged during the first five years; for the next 10 years, the rate is 1 per cent; for the following 10 years, 2 per cent; for the next eight years, 2.5 per cent; for the next six years, 3 per cent; and thereafter 3.5 per cent. France will pay altogether $6,847,674,104.17 at an average interest rate of 1.64 per cent.

Italy: The original amount of the Italian debt was $1,647,869,197.96. The principal as funded is $2,042,000,000. The 62 annual payments range from $5,000,000 for the first five years to $79,400,000 in 1987. No interest at all is charged during the first five years. The interest rate is ⅛ of 1 per cent for the next 10 years; ¼ of 1 per cent from 1940 to 1950; ½ of 1 per cent from 1950 to 1960; ¾ of 1 per cent from 1960 to 1970; 1 per cent from 1970 to 1980; 2 per cent from 1980 to 1987. Italy will

pay altogether $2,407,677,500, the average interest rate being .405 per cent.

The minor settlements were more or less modelled on the major settlements. Those with Finland, Hungary, and Lithuania conform to the British. Five others carry the same rates of interest, but differ in the options provided for the initial period. Of these five, Poland, Latvia, and Esthonia are given the privilege of deferring three-quarters of the payments due for principal and interest during the first five years, the deferred payments being funded at 3 per cent. Czechoslovakia and Rumania have the right to defer a quarter of their payments during the first 18 years and 11 years respectively. Yugoslavia follows the model set for Italy.

The percentages that the present value of major payments discounted at 3 per cent represent to the debts prior to funding are as follow:

Great Britain	104.4 per cent
Belgium	62.5 per cent
France	64.6 per cent
Italy	36.4 per cent

The proportions of the other settlements, except that with Yugoslavia, which shows a percentage of 45.8, work out at over 100; these states, therefore, repay their debts in actual present value to the United States, although in actual value to the debtor states this was a profitable transaction, seeing that the commercial price of money to them in the United States is from 5 per cent to 7 per cent. This factor should be taken into consideration in evaluating the provisions of these minor settlements, for they are in a different category from the major settlements; but this cannot be said to explain the difference between the two classes because the index used was in all cases "capacity to pay."

We now find that the percentages of remission accorded three of the four chief war debtors were: Belgium, 37.5; France, 35.4; Italy, 63.6. Italy, which has been treated most generously of all, has been asked to pay little more than the amount of her post-armistice borrowings. These remissions are responsible for an average abatement of the whole of the funded debts of 23.8 per cent; we have received 76.2 per cent of full value.

Some calculations are based upon the funded debt, not on the debt prior to funding. On a 3 per cent basis, the present value of the payments to be made by Great Britain is $4,922,702,000. The debt as funded is $4,600,000,000; therefore, the excess is equivalent to 7 per cent, as compared with 4 per cent, when the debt prior to funding is considered. However, to match the present value with the funded debt is apparently not considered appropriate by the Treasury inasmuch as the United States was owed accrued interest,[36] which, it is contended, must be taken into account to arrive at full value.

Whether the funded debt or the debt prior to funding be chosen for purposes of comparing present value, the British arrangement is in effect a 100 per cent settlement, although it must be borne in mind that it was reached when the cost of money to the United States was about 4¼ per cent, on which basis 17 per cent of the British debt has been remitted. Mr. Mellon's method is to contrast the estimated money cost over the 62-year period, and this would show that even now Great Britain is paying the United States .3 per cent more in interest than the rate that the Secretary of the Treasury envisaged, namely, 3 per cent. She is paying less by .5 per cent than the present rate of America's public debt, and the United States is therefore not yet exacting any excess in this connection; nor, of course, can be said to have exacted the bond, which allowed for 5 per cent.

The present values of all payments under the settlements on the basis of varying rates of interest may be worked out:

3 per cent	*4¼ per cent*	*5 per cent*
$9,175,655,000	$6,862,285,000	$5,873,638,000

The present values of the payments to the United States of the principal reparation creditors are:

	3 per cent	*4½ per cent*	*5 per cent*
Belgium	$ 302,239,000	$ 225,000,000	$ 191,766,000
France	2,734,250,000	1,996,509,000	1,681,369,000
Great Britain	4,922,702,000	3,788,470,000	3,296,948,000
Italy	782,321,000	528,192,000	426,287,000
Total	$8,741,512,000	$6,538,171,000	$5,596,370,000

[36] At funding this back interest was in general fixed at 4¼ per cent.

Comparison with British Settlements.

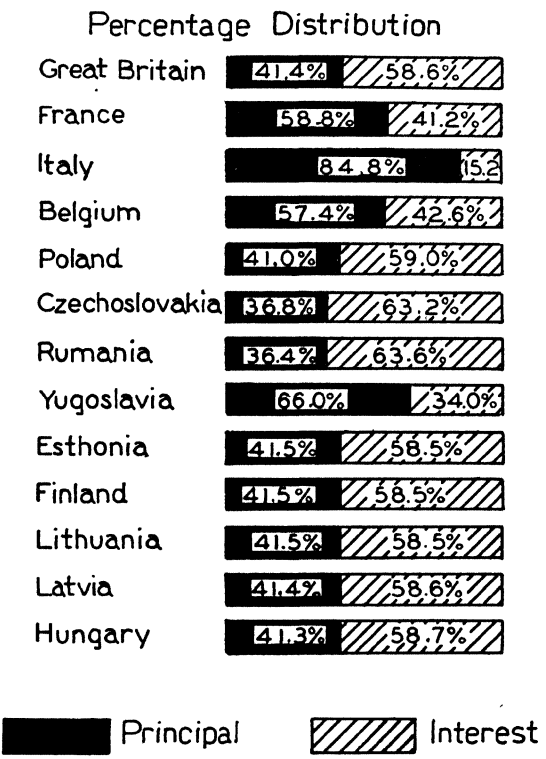
The case of Great Britain invites further treatment, first, because of her leading position among America's debtors, and, secondly, because of the comparison she furnishes in her own debt settlements. Great Britain's debt to America totals less than half of the original aggregate of the American loans and is only $600,000,000 more than France's. Yet the schedule of her remittances to Washington in the early years is proportionately much the heaviest of all the schedules; to what extent may be appreciated from this comparison.[37]

> Amounts paid under all funding arrangements with the United States up till 1927: $847,734,721.
> Amount contributed by Great Britain: $802,980,000, or 95 per cent.

One reason for the striking contrast is the fact that Great Britain arrived at the first agreement with the United States; but even current payments on all the debt so far funded bear roughly the same disparity. Out of $96,544,830.88 received by the Treasury on account of the last half-yearly payments in 1927 all but $3,979,830 came from London.

The settlements of the United States and of Great Britain with their respective debtors are hardly comparable by reason of the differences in classification of war debts and in the manner in which the original debts were contracted. First, the war debts owed us are all-inclusive, even of relief loans and credits for supplies of materials after the armistice; the war debts owed England have been pared in official accounting of all transactions save those for war purposes between governments. Many of the financial transactions between France and Britain were concluded between the Bank of England and the Bank of France; these are outside of the category of official war debts within the meaning of the settlements. Secondly, British debts had a considerable dash of politics mixed in with them. Taken altogether the inter-Ally

[37] This does not include cash payments made by Great Britain prior to the signing of the agreement amounting to $100,526,380.



Percentage distribution of principal and interest in the war debt settlements with the United States.

debts in Europe are a web of complications, sometimes created, like historical war loans, to persuade participation in the struggle. This was well brought out by Mr. Winston Churchill in defending his settlement with Italy in Parliament. At the time of "the proposed imminent entry of Italy into the war," he said, "very considerable offers were made to Italy which carried with them, subject to numbers of conditions which have not been fulfilled, the principle of the virtual cancellation of the overwhelming bulk of the obligations, and although it was never argued by Italy that anything of a legal nature or of a definite and final nature had taken place, yet at the same time we have felt bound to consider what had happened in the intervening period. . . ." This excerpt

is enough to make the student quail before the task of labelling the various British loans to Italy.

French commentators have always argued that the terms of the agreement concluded at Paris in February, 1915, by Great Britain, France, and Russia, bound the signatories to the system of settlement by contribution. Had not Lloyd George signed the joint *communiqué* by which these governments informed the world that they were determined to unite their financial as well as their military resources?

When it became apparent that there was no reconciliation between the debt policy of the United States and the reparation policy of France, Great Britain settled down to her own policy of the Balfour Note, and began to look around for the best means of persuading her debtors to clear their obligations. Like America's debtors, Britain's did not refuse to honor their bonds; these bonds were contracted at a time when the principles of borrowing had been scattered to the four winds, and they had been signed without any thought of provision for future discharge. With peace had returned peace-time caution, and the debtors, like the honest merchant, were loath to sign new notes which they were not convinced they could cover. It was the principle of "he that hath no credit oweth no debts," and until some credit standing had been restored, Britain's debtors stood aloof. Understandings were eventually reached, but Great Britain, like the United States, had to accept what she could get, and the diversity of the settlements marked that measure.

To contrast the funding arrangements on the mathematical principles adopted above, it would be necessary that a similar outlook for internal borrowing face Great Britain as faces America, and that interest rates on public debt should be similar. This is not so; the internal cost of money to Great Britain is around 5 per cent.

With the reservations inherent in this contrast, a comparison is given of the proportion that the present value of French and Italian payments to Britain and the United States discounted *at 5 per cent* represents to the debts prior to funding:

France	Debt to Great Britain	38 per cent
	Debt to the United States	42 per cent
Italy	Debt to Great Britain	14 per cent
	Debt to the United States	21 per cent

Considerable cancellation is thus shown by both creditors when 5 per cent is taken as the base of computation.

In the schedule of payments, however, Great Britain has come off better than America, in that she has secured much heavier annuities in the early years, on the assumption, judged from Parliamentary speeches, that all-round revision is more than a probability of the future. On the contrary, the United States viewed her settlements as permanent, and, animated by considerations of capacity to pay, postponed the main burden of payments to future generations.

France has her own debt problems as well as Great Britain and the United States, and has only in recent years taken notice of them, partly because they are not so collectible as are Great Britain's and America's, and partly because of her 5½ per cent interest in German reparations. France shared with Great Britain the financing of Russia in the war years, and continued her work after the Russian Revolution, when she subsidized various evanescent Russian governments before the advent of the Soviets. She also financed the small states in coöperation with Russia, and when the Czarist *régime* fell, took this share also upon her shoulders. France's post-war political activities in building a *cordon sanitaire* around Germany caused other inroads upon her purse. It is impossible to estimate in francs the amount of all these debts, owing to fluctuations in the exchange, which provided an aggravation of France's debt problem to which the other creditors were not subject. Altogether the maximum amount of French credits on foreign governments, excluding counter-claims and the loans to different anti-Bolshevist governments, may be placed at $457,000,000,[38] of which half represents credits to Russia. It is doubtful whether over one-fourth of this sum will be received by the French Government.[39] This is the reason why French assets in the

[38] Batsell, *The Debt Settlements and the Future*, p. 85. [39] *Ibid.*, p. 85.

accounting of war liabilities in 1926 lay almost solely in German reparations. That France still clings to the expectation of revision is shown not only by her refusal to ratify her agreements with Great Britain and the United States, but also in her agreement with her Rumanian debtor, which contains a clause providing for revision in case of the readjustment of French payments.

EFFECTS OF THE SETTLEMENTS

i. Economic.

In consequence of what President Coolidge describes as "a position unsurpassed in former human records," the United States has undertaken a program of domestic debt extinction equally unparalleled, averaging a billion dollars annually for the last eight years. Only a fifth of that sum comes out of Allied debt repayments, which are $200,000,000, rising gradually till they reach $425,000,000 in 1985. Compared with the government revenue, the first annuities are only 5 per cent, or about the average annual fluctuation in Treasury surplus. They are only 5 per cent of the total value of American imports, less again than the yearly fluctuation of this item. These contrasts show how negligible are the debt payments in America's economic calculations. Placed side by side with the national income, the annuities are dwarfed almost to insignificance, being only ¼ of 1 per cent of it. Otherwise figured, the annuities represent an amount equivalent to $1.80 per capita.

The annuities bulk larger in the smaller economies of Europe, involving an effort to create the necessary surpluses for transference; a dollar means much more to the European than it does to the American. Many examples could be cited to show this difference in values. A French army pension rarely reaches a seventh of the amount paid to an American war victim. Secretary Mellon used another illustration in a speech to the Union League Club in Philadelphia on March 24, 1926. In telling his audience a few details of the Funding Commission's exploratory work into the "capacity to pay" of one of the smaller debtor states, he said that the scale of living of the bulk of the peasants in that country worked out at $31 per man per year. This standard included no

meat, one suit of clothes, and one pair of sandals a year.[40] This impoverished debtor was a small country but its condition was symptomatic of the low standard of living of post-war Europe. All surveys of comparable wealth and income are inexact, partly because of lack of uniformity of conception, partly because of varying standards of computation; but the one below, submitted by the Italian debt negotiators to the Funding Commission, has received general acceptance as reasonably accurate, at least in its evidence of proportion, which is the object here sought:

RELATION OF WEALTH AND INCOME

(In billions of dollars)

Country	*Wealth*		*Income*	
	1914	*1925*	*1915*	*1925*
Italy	21.4	22.3	3.76	4.06
France	57.9	51.6	7.24	7.74
Belgium	10.6	11.5	1.40	1.75
Great Britain	68.1	117.8	10.95	19.00
United States	200.0	380.0	33.00	70.00

For more reasons than those cited in presenting the above table, comparison of taxation is a highly speculative undertaking, but the following statement of the relation of taxation to national income, taken from the *Index* of July, 1925, published by the New York Trust Company, may be regarded as revealing trends faithfully enough. The figures are based on national and local taxes in 1923-4, converted at average exchange rates, and are adapted from the computations of the National Industrial Conference Board:

RELATION OF TAXATION TO NATIONAL INCOME

	Taxation per capita in dollars	*National income per capita in dollars*	*Proportion of national income absorbed by taxation per cent*
Great Britain	86.94	374.74	23.2
France	39.07	186.98	20.9
Italy	19.04	99.17	19.2
Belgium	24.83	146.06	17.0
United States	69.76	606.26	11.5

[40] *Annual Report of the Secretary of the Treasury,* 1926, p. 259.

The United States is the only one of these countries whose taxation has since declined. According to the National Industrial Conference Board,[41] the percentage for 1926 was 10.8, and at the end of 1927 the question was being canvassed whether Federal taxes should not be cut by as much as $250,000,000. Altogether, the Federal tax per capita has been cut from $45.23 in 1921 to $27.17 in 1926. In Europe, on the contrary, the tendency has been upward, and in some cases steeply, because of the travail of reconstruction. By a small margin France would seem to have displaced Great Britain as the most severely taxed nation, the proportion of her taxation to national income being generally placed at 25 per cent. This has been the work of Premier Poincaré and his National Union government, under which France's economy has revealed instead of concealed its vitality. Forced to desperation by the costs of repairing the devastated areas, which according to the 1928 budget amount to about $3,430,000,000, and with war pensions of $1,200,000,000 also to meet, the French embarked on the Ruhr adventure only to find it unprofitable. When this realization had been borne in on the French people, they recovered confidence in their own ability to provide for reconstruction and faced realities by submitting to a stern ordeal of retrenchment. French funds, which had left the country in millions, have returned and have brought back with them the money of foreign speculators who anticipated "stabilization by law" of the franc at an advanced level from that which obtained in 1927. These factors, combined with the fruits of a reanimated industry and a hard-working people, had been successful by the end of 1927 in building up a billion and a half dollars in foreign exchange to the credit of the Bank of France. The transformation seems almost magical when contrasted with the position on July 24, 1926. At that time, the date of Poincaré's assumption of office, the Treasury had no more than a margin of a million francs in the Bank of France, a sum insufficient even to cover impending maturities. In the United States, the French Government held only $1,000,000; on August 1, it had to remit $10,000,000 to the Treasury; at home, domestic bondholders were demanding reimbursement. More

[41] *Cost of Government in the United States*, 1926.

inflation seemed the line of least resistance, but the Government began a policy which, by restoring confidence and enlisting popular coöperation, produced budgetary equilibrium and *de facto* currency stabilization. The conclusion is hard to resist that France was never so stricken as she had thought she was.

The effort to reëstablish a gold standard in Europe[42] has also been retarded by the politics and economics of war debt adjustment.

How the Payments Are Absorbed.

America's war debts were extended in commodities; the United States asks their repayment in dollars or in United States Government securities at par. The face value of these debts is $2,000,000,000 more than the world's gold holdings. The completion of the syllogism is that *nolens volens* the United States must accept remittances in commodities or services in order to provide Europe with dollar exchange. Ignoring the factor of the excess of debts over gold stock, the economics of debt payment involve liquidation in commodities or services. It is true that securities might be surrendered, as was done during the war, but only Great Britain could make the surrender, and even this process would connote contributions to interest account, which must be settled in the last analysis by commodities or services.

These war debts were extraordinary in that they were created by an extraordinary demand for goods. This extraordinary demand in turn produced an extraordinary liquidation of America's pre-war debts to Europe. The present debts are now subject to an ordinary manner of repayment (conditions having returned to normal), with economic law, which in war-time was in fetters, once more operative. This law is succinctly stated by Moulton and Pasvolsky:

In all discussions regarding the debt problem there is one primary fact that must be constantly borne in mind, namely, that all debts,

[42] See Section II, Chapter 4, "International Implications of Gold Distribution." This chapter also treats of the extra burden imposed on the war debtors by the fall of prices since the time when the goods representing the loans were bought in the United States.

whether between individuals or governments, whether domestic or foreign, represent at bottom an exchange of goods or services. Debts are created when goods or services pass from the lender to the borrower. When debts are repaid, the direction is reversed, and goods or services pass from the borrower to the lender.

Though war debt remittances constitute capital payment and not trade transactions, though the United States enforces a high tariff to restrain importation of goods, the proceeds must eventually accrue to the United States either directly or in a roundabout way, in imports or in services rendered. Mr. Hoover[43] himself admits that the process may be triangular, but he goes on to say, "The loans were individual to each nation; they have no relation to other nations or to other debts." The mechanics of debt repayment from one nation to another are as intricate as a nation's commerce, which is as ramified as the world itself. Great Britain may sell cotton goods or machinery to China; to pay for which China may supply the United States with wood oil, thereby providing the dollar exchange wherewith Great Britain may pay her war debts to the United States.

Such a triangulation of debt consequences is necessitated in the adjustment of world accounts and it cannot be effected without competition in neutral markets with American manufacturers. All the factors that go to make a debtor nation an exporter and a creditor nation an importer have been treated exhaustively by Dr. Benjamin M. Anderson, Jr., in various issues of the *Chase Economic Bulletin* and in the *Proceedings of the Academy of Political Science* (N. Y.).[44] This economist points out that when a debtor nation levies taxes in order to accumulate the treasury surplus necessary to the liquidation of its external debt, it thereby reduces the domestic purchasing power and the ability of its people to purchase goods in foreign markets. At the same time the demands of the domestic treasury for bills of exchange lessen the available supply and cause the foreign exchange rate to rise, thereby discouraging imports and encouraging exports. Because of this exchange situation and of this lower purchasing power, the country

[43] At Toledo, October 16, 1922. [44] Vol. XII, No. 3.

becomes a world "bargain counter" and the export of goods is strongly stimulated. It follows that, as in Germany, the mechanics of debt repayment organizes production and exportation in the debtor state.

In America's accounts the manner of admittance of debt payment may be suggested, although with the qualification that nothing can be proved explicitly, because all figures of current transactions are susceptible of changes in international price levels and in business conditions here and abroad. First as to goods:[45] to receive payments, the United States either adds to her normal imports or decreases her normal exports. There is little likelihood of much diminution in exports; many of the agencies of government and the country's economic life are directed toward their stimulation. It stands to reason, however, that with these remittances to make, the Allies have less free money to spend in the United States, and as is admitted by Secretary Mellon when he says that the prosperity of Europe is worth more to the United States in dollars and cents than the repayment of all of the war loans put together,[46] the effect is inexorably to depress European buying power. Merchandise exports since 1923, the date of the first funding agreement, have gone up from $4,167,000,000 to $4,865,000,000 in 1927, but since 1925 have been stationary. This is how European takings figure in the statistics:

1923	$2,093,000,000
1924	2,445,000,000
1925	2,604,000,000
1926	2,310,000,000
1927	2,314,000,000

That European purchases from the United States have not moved more progressively is the more remarkable in that a large part of them were subsidized by American loans. In 1927 European capital flotations offered in the United States totalled $650,000,000, most of which went to Germany, which spent most of the

[45] For further treatment of the trade of the United States, see Section II, Chapter 1, "Commercial Expansion."

[46] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 597.

proceeds in absorbing the American surplus, her purchases in the United States showing an increase of 32 per cent over the 1926 total. Secretary Mellon said at Philadelphia,[47] "The farmer and the laboring man would rather have a market for our surplus in Europe than save a dollar of Federal taxes." The combined war debts to the United States amount to only $1.80 per capita per annum on capital account: some idea of what they subtract from American income account may be inferred from the static condition of European takings from us, part of the responsibility for which must be placed at the door of the war debts.

The United States has created a high tariff wall against the receipt of debt repayments in commodities. But it would be a task akin in futility to King Canute's utterly to stem the flow of goods America-ward in eventual payment both of war debts and interest on American credits abroad. Imports are creeping up as well as exports, improving from $3,792,000,000 in 1923 to $4,184,000,000 in 1927. Because of the barrier against the manufactured goods of Europe, the balance of trade with that continent shows over a billion dollars in America's favor. Importations from Asia and South America are more acceptable, and in the appreciable increase in takings from these continents may be traced some element of war debt repayment, as well as the influence of the position of the United States as a manufacturing nation and as the nation with the highest standard of living in the world. Mr. Hoover said at Toledo that in seven years the proportion of products from the tropics which we imported has increased from 36 per cent to 53 per cent of our total imports. "The shipment of European manufactured goods, of the sort that might compete in our home market, to the tropics, and in turn the shipment to us of tropical goods that will not interfere with our domestic manufacture or employment, is not only possible but is going on all the time." But this is not altogether an agreeable process to the United States, first, because we wish ourselves to sell manufactured goods to the tropics, and, secondly, because some of the tropical products we wish to import are subject to control by our European debtors. The United States needs rubber, but Britain in 1922 virtually con-

[47] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 302.

trolled the world price, and one reason for the scheme sponsored by the British Government that for several years restricted output and advanced prices was alleged at the time to be the raising of the dollar exchange needed for debt payment.

It is in the category of services that the United States mainly reveals the method of adjusting the war debt annuities. Loan-making has proceeded since 1924 at a rate above a billion and a quarter dollars annually. The return in interest payments must be added to the receipts by way of war debts; but these might easily be swallowed in new issues and refunding. The United States is beginning to follow the system that has built up the importance of Great Britain as a creditor nation. Every year Great Britain has returned in loans more than she has received in interest, with the result that the balance of world indebtedness to her has steadily grown in volume. Other American services to Europe lie in contributions by tourists and immigrants. Whereas war debt payments total only $200,000,000 a year, American tourists left $617,000,000 abroad in 1927, most of it in our debtor countries. There is every likelihood that these contributions will maintain this level. Immigrant remittances, which showed a net outgo of $206,000,000 in 1927, are also equal to the task of taking care of the war debts; and there are many other items of American governmental and private expenditure and remittances whose economic effect amounts to considerable offsetting in the American balance of payments.[48] As Ray Hall explains:[49]

> Our war-debt receipts are an invisible export. As such they tend to detract from all other exports—including not only merchandise exports but invisibles—as well as to promote every import, whether visible or invisible.

In all that has been said on these interacting forces connected with international debts may be found the difference between them and debts between individuals. The process of getting money out of a country is far more involved than that of getting money out of an individual. A person is a unit and his repayment of debt may

[48] See Section II, Chapter 2, "The United States as a Creditor Nation."

[49] Department of Commerce, *The International Balance of Payments of the United States in 1926.*

not affect anybody but himself and his creditor. A person does not necessarily combine within himself the rôles of customer and neighbor. A person can be haled before courts of law and in the last analysis before a bankruptcy court. A person's house is not his castle to the same extent as is a nation's; you can take his assets, his gold, his securities, you can mortgage his estate; in time you can press an individual to the limit without harming either yourself or a third party. Contrast this method of treating a private debtor with the treatment of Germany for non-payment of reparation debts. It is the consensus of opinion that all the measures taken by the Allies to force payments out of Germany inflicted more harm on the creditors than on Germany herself.

ii. Psychological.

VERY few subjects are as confusing as this subject of intergovernmental indebtedness. It is a spider's web of complexity. Statesmen have been tripped up by its tangled facts; it has been contorted out of all recognition in controversy, and equities complicate many otherwise plain issues. It has enmeshed European diplomacy in a maze of debits and credits. The confusion of approach to which it has given rise is amply demonstrated in this survey. What is clear is that, first, the immediate post-war years spelled disorganization for Europe, secondly, that it is futile to apply a tape measure to war contributions, and thirdly, that those contributions whose adjustment was left over to the peace were more susceptible of settlement on what General Pershing calls the "middle ground," because post-war statesmanship should have worked for the resumption and progressive continuance of normal, *i.e.*, peace, relationships.

The failure to look at post-war problems in this light is attributable in large measure to the psychology of prolonged conflict. "Europe, if she is to survive her troubles, will need so much magnanimity from America that she must herself practice it," warned J. M. Keynes.[50] Europe did not practice magnanimity, and war's aftermaths in continued hostility provoked an unwillingness on the part of the United States to adopt a wide survey by way of judgment.

[50] *Economic Consequences of the Peace*, p. 135.

"The legitimate object of war is a more perfect peace," says the inscription on General Sherman's statue in Washington. This object has precedent back of it. Castlereagh's policy was that a peace should mollify; he wrote it into the 1816 treaty. Bismarck adopted the same principle in 1866 in respect of Austria. He departed from it in 1871 and the French in 1919 improved upon his model. The Allies' treatment of Germany provided reasons in political expediency for the American insistence on the separateness of the American debts; who can tell what the consequences would have been if she had thrown her own comparatively business-like debts into the pool of debts and reparations that prior to the Dawes Plan had become a maelstrom? Americans thought themselves well out of it, and the settlements were negotiated without much domestic opposition and without enough division of opinion to make them a political issue.

But in recent months the question has sometimes been asked: Was it wise to enter into an agreement with Great Britain in the midst of these involvements? America's position became set as a consequence; it was difficult to offer any contribution through the debts to European appeasement after it had begun through the Dawes Plan. The inevitable pursuance of American war-debt policy on this model, in spite of the change in Europe, was regarded by the altruistic as a "stroke of the moment" at the expense of nations in distress similar to that against which George Washington declared in 1791. Have conditions changed enough in Europe to warrant any move toward a meeting ground? European statesmen and writers assert that they have; that since the Dawes Plan the tendency has been to sink differences in the promotion of productivity, trade, and goodwill. Europe's complaint is that this understanding is rendered difficult of achievement without the political collaboration of the United States.

In France at least the debts remain open to discussion, notwithstanding the fact that they were officially closed in Washington as an issue by the winding up of the World War Foreign Debt Commission. France does not regard her settlement as negotiated; she regards it as brought about by diplomatic pressure, and justice is still appealed to for a resettlement. In England the official

attitude is passive, but a resettlement is also envisaged, and in the meantime her statesmen "view with great misgiving the divergence of opinion and the estrangement of sentiment which is growing up, in regard to these war obligations."[51]

The psychological effect of the settlements on European sentiment is deep-rooted. It produced cabinet crises and domestic dissension when the negotiators returned to Europe. It is related to the ethics as well as the economics of the case. "Equity,"[52] said Grotius, "is the correction of that wherein the law by reason of its universality is deficient." That the law of debt repayment is grossly deficient of this correction is the ground of European agitation, and leads back to the old conflict between two rights, one of ethics and one of legality. The average Frenchman, for example, has not the vaguest idea about the schedules; all he feels is that while his house appeared to be falling about his ears he was dunned to pay for uniforms, food, and munitions used in a joint crusade. Was our blood of no value compared with a box of corned beef? Were you only creditors fighting on the side of debtors? These are a few of his questions that crop out from time to time in French comment, and may have been the fruit of the lack of finesse in some respects of American war-debt diplomacy.

If he is intelligently informed the Frenchman will pass coldly over the extent of the cancellation accorded and tell you that the settlements were conditioned strictly on well-known business formulas and were finally boiled down to what Newton D. Baker describes as "the amount thought possible of collection without causing revolutions in the paying countries." To him it smacks of hypocrisy to deny the reimbursement of war costs to the Allies while collecting them ourselves.[53] Toward "capacity to pay," he is especially resentful, because it pillories the Allies as near-bankrupts, admittedly the basis of the Congressional speeches urging the acceptance of the arrangements. "It is a question whether you want half a loaf or no loaf," said Representative

[51] Note to Secretary Kellogg, May 2, 1927.

[52] This term is used in the sense given to it by continental jurists.

[53] Although French claims to war costs at the Conference of Paris sometimes exceeded the entire value of all the real and personal property in Germany.

Crisp.[54] National pride in France was piqued when these matters were discussed as if Congress were a bankruptcy court. This was true also in the other debtor states, and, although they have been less vocal than the French, they, too, have a conviction of America's inequitableness, a conviction that is revealed from time to time in invidious comparisons and the suspicion that the settlements have been used as an instrument of national policy.

The worst psychological consequence, however, is the tendency of debt policy to keep alive national self-laudation of war effort and to cause constant rehashing of the extent of war contributions. "Who won the war?" has been asked most often in connection with the debts.

A nation must eventually be sensitive to a continent's opinion. That section of American sentiment which opposed the settlements has been sensibly strengthened thereby in its opposition. It regards the American solution as a solution dictated by neither statesmanship nor finance; rather as the solution of bureaucracy. Statesmanship has now to bear the brunt in dealing with a continent given to expressions of unfriendliness toward the United States. Sometimes unfriendliness has gone to extremes of street-rioting; more often it is expressed in the flaring-up of controversies like that with France over her discrimination against American goods. In Great Britain it sometimes takes the form of sarcastic references to the repudiated debts of the southern States. Envy of the American standard of living is one ingredient of this attitude, and resentment of American preachments and moralizings on international obligations are also contributory. The *New York Times* correspondent in Paris[55] has the following to say in this latter connection: "Europe long ago got enough of American evangelism, even when it was pure." Finally, the necessity that Europe is under to borrow from her creditor is stigmatized as placing Europe in a debtor's prison.[56]

Will this criticism clog international understanding over the two generations during which the debtors are scheduled to pay

[54] *Combined Annual Reports of the World War Foreign Debt Commission*, p. 406.

[55] March 8, 1928.

[56] Quoted by Caillaux in *The Banker*, January, 1926.

their debts? The increasing articulateness of American anti-settlement opinion argues some approach to reconciliation. The protests against the settlements by professors of Columbia and Princeton universities[57] reveal a drift toward a general recognition of the link between debts and reparations. The connection has long been more or less self-evident; it is now rendered obvious by American financial operations in Germany, which have made American investors feel more or less bound up with the future of the Dawes Plan. The simple facts are that about half of German reparations are retransmitted as through a conduit pipe by way of war debt remittances to Washington. This conjures up an unfair picture when divorced from the correlative picture of the territorial and other spoils which the Allies have wrested from Germany; it is mentioned as showing the connection between the financial legacies of the war. The *New York Times* of December 21, 1927, says:

> Our government may protest as long and loudly as it pleases, and with copious citations of the law and of international agreements, that reparations have nothing to do with war debts, but in the end it will be found that they have. It is well to have Mr. Gilbert raise the question of the fixed amount to be demanded of Germany, but it is also well to keep steadily in mind that the problem of war debts is closely related to it. The two must finally be discussed and solved together.

At the end of 1927 it was the hope in Europe that the United States would join in a scheme of readjustment of both debts and reparations by transplanting them from the political bed of intergovernmental relationships to a wider field where they would be absorbed by private investors in the world markets of international finance. The idea was gaining ground in the United States, but the approach of responsible opinion, while recognizing the advisability of taking debts and reparations out of international politics, was lukewarm to European suggestions of a conference. It was felt that such a conference would seek to disturb settlements that are considered inviolable. The hope of a meeting ground lies in a preliminary settlement of the reparation problem. If, as is

[57] International Conciliation, *The Interallied Debts*. No. 230. May, 1927.

foreshadowed, this should take the form of delivery to Germany's creditors of negotiable German securities, then the creditor states would market them to realize cash, with which they would be in a position to ask the Treasury Department for terms for a cash settlement of the war debts. "War debtors could very well approach the United States Treasury," said Garrard Winston, at the round table conference previously referred to, "and suggest cancelling future instalments on the debt settlements by discount for cash. At reasonable current interest rates the discount would reduce payments for the later years of the term to quite attainable figures, and the menace of a continuing burden on generations not yet born would end."

It is possible that we should be the biggest buyers of these German securities, with or without official participation in such a rearrangement. The consideration that we should be buying reparations or relending money to the Allies to pay us their debts would not be active if the terms offered were attractive enough.

CHAPTER THREE

THE GERMAN DEBTS UNDER THE TREATY OF BERLIN

THE TREATIES OF BERLIN, VIENNA, AND BUDAPEST

THE struggle between the Wilson administration and a Senate organized under the leadership of the "irreconcilable" groups of Republican politicians precluded the negotiation of a peace with the Central Powers compatible with the administration's foreign policy. The final rejection by the Senate of the Treaty of Versailles in March, 1920, caused the suspension of further action in the formal restoration of peace until the elections had gone against the Democratic party. The Wilson administration might then have negotiated a skeleton treaty assured of the general approval of the country and inoffensive to isolationist and internationalist politicians alike; but a tradition of good sense required that the administration leave to the decision of the party coming into power the questions which were to have important and more than temporary bearing upon national policy. The resolution of Senator Knox for repealing the declaration of war with Germany, which was passed May 21, 1920, was therefore vetoed by President Wilson on May 27, 1920.

Thus the Republican administration on coming into office in 1921 found itself confronted with the necessity of ending the state of war between the United States and the Central Powers. The formulation of a peace with Germany was required to retire the war-time laws remaining on the statute books, to assure to the United States certain of the advantages arising out of the successful outcome of the war, and to prepare for the restoration of normal diplomatic and commercial relations.

Reiterating his declarations in favor of the Treaty of Versailles which he had mixed with hostility toward it, President Harding delivered a message to the Senate on April 12, 1921, in which he suggested that "the wisest course" would be "to engage under the existing treaty," with reservations suitable to the political complexion of the Senate. This was the administration's last gesture

in favor of reconsidering the Treaty of Versailles as an instrument to secure peace. It was followed shortly afterward by a conference between the President and Senator Lodge at which the latter apparently effaced what vacillations there may have been in the President's mind.

Congress took the first step by redrafting and expanding the Knox resolution declaring at an end the state of war with Germany, Austria, and Hungary. It was jointly passed as the Knox-Porter resolution on July 1, the Senate voting for it 38 to 19,[1] and was signed by President Harding on the following day. This act repealed the laws which had been enacted for the duration of the war; affirmed the rights to which the United States might have become entitled by reason of her participation in the war, under the terms of the armistice, under the terms of the Treaty of Versailles, and as one of the Allied and Associated Powers; and provided for the retention of property confiscated or sequestrated during war-time until the Central Powers should satisfy all of the claims against them for losses and damages suffered by American nationals since the outbreak of the war in 1914.

The joint resolution served to put an official end to the war as far as American law was concerned, but it did not lay the bases for peace, nor did it create within the meaning of international law a new relationship between America and the Central Powers. During July the American Commissioners to Germany, Austria, and Hungary were instructed to negotiate formal treaties of peace with those countries.

Until August 20 the negotiations proceeded in secrecy, and the Senate displayed the same impatience which had characterized its criticism of President Wilson's silence during the Paris Peace Conference. The expectations expressed in America were that the treaty would incorporate the stipulations of the Joint Resolution; of prime importance were the confirmation of America's title to the German ships which had been confiscated, the recognition of America's claim to a share in the disposition of the German possessions surrendered to the Allied and Associated

[1] The majority consisted of Republicans and some anti-Wilson Democrats; the "Wilson Democrats" and some independent Republicans made up the minority.

Powers under the terms of the Treaty of Versailles, notably of the trans-Pacific cable station of the island of Yap, and the inclusion, should the contemplated treaty incorporate commercial clauses, of a most-favored-nation clause in conformity with traditional American diplomatic policy. Germans expressed the hope that the United States would accord more lenient terms than were provided in the Treaty of Versailles, that German property in America would be restored to its original owners, that agreements would be reached protecting German owners of American patents, particularly those who had lost the monopoly of the manufacture of certain chemicals, and that America would accord reciprocal treatment to German nationals. In general, however, German opinion conceded that the terms of the Treaty of Versailles, with the exception of the hated acknowledgment of responsibility for the war, would be an acceptable basis for the treaty with America, for Germany was optimistic about the individual advantages that were expected to accrue to her from a "separate peace."

THE TREATY OF BERLIN

In these circumstances, which favored a meeting of minds, the American Commissioner to Germany, Ellis Loring Dresel, concluded the negotiations with Dr. Rosen, German Minister of Foreign Affairs, on August 22, and signed the treaty of peace with Germany on August 25. Commissioner Frazier at Vienna and Commissioner Grant Smith at Budapest signed corresponding and almost identical treaties with Austria on the 24th and with Hungary on the 29th.

The Treaty of Berlin was a skeleton treaty whose sole independent affirmation was the intention to restore friendly relations. The preamble quoted *in extenso* the applicable parts of the Joint Resolution of Congress and by Article I Germany accepted its stipulations. Article II mentioned the parts of the Treaty of Versailles which the contracting parties accepted and confirmed, and enumerated the parts of that Treaty which the United States expressly declared to be not binding upon it. Article III consisted of the formula providing for the ratification and proclamation of the Treaty. The multitude of details falling within the province of

a treaty of amity and commerce for the governance of complete resumption of economic intercourse were left for future negotiation.

The principal clauses which the Treaty of Berlin adopted from the Treaty of Versailles were those relating to the surrender of Germany's colonial possessions, the repatriation of prisoners of war and the care of soldiers' graves in enemy territory, the disarmament of Germany, Germany's acknowledgment of "war-guilt," reparations, the Reparations Commission which was constituted to control the discharge of reparations, the financial and economic provisions imposed upon Germany, the rulings governing aerial navigation, ports, waterways, and railways within Germany, the army of occupation of the Allied and Associated Powers in western Germany, the abrogation by Germany of all treaties and agreements made by her with the Soviet, the Ukrainian and the Rumanian Governments, the evacuation of the Baltic provinces and Lithuania by German troops, and the recognition by Germany of the disposition made of the territories of her former allies. The clauses of the Treaty of Versailles which the United States specified as not binding upon her dealt with the Covenant of the League of Nations; the prescription of the new boundaries of Germany; the territorial and administrative dispositions of annexed German provinces and of the countries contiguous to Germany's new frontiers; the demilitarization of the left bank of the Rhine; the cession to France of the rights of exploitation in the Saar basin; the renunciation of Germany's extraterritorial rights in Asia and Africa and the abrogation of her leases and titles in Shantung; and the establishment of an international labor office connected with the League of Nations.

It was of course impossible to undo the Treaty of Versailles and to revise the map of Europe. The Treaty of Berlin therefore distinguished between the provisions of the Treaty of Versailles which concerned the United States and those which were exclusively of non-American significance. This was in harmony with the policy which the Harding administration practiced in the conduct of foreign relations. The difficulty of the method of "incorporation by reference" is shown by the fact that in three in-

stances the Treaty of Berlin ignores the essential relation between the parts of the Treaty of Versailles which it accepts and the parts which it rejects. Although it adheres to the provisions for the disarmament of Germany, it rejects Section 3 of Part III requiring the demilitarization of the left bank of the Rhine; notwithstanding its acceptance of the articles relating to reparations, it repudiates the political clauses interwoven with them assuring security for their payment; despite its acceptance of the renunciation by Germany of her colonies, it refuses to accept responsibility for their future administration as mandated territories, and it does not assume responsibility for the surrender of the leases and capitulations formerly enjoyed by Germany in Bulgaria and Turkey, Africa, and the Far East.

The publication of the Treaty produced a wave of disappointment among the members of the League of Nations which had hoped for the ultimate adherence of the United States. It seemed to close the possibilities of American reconsideration of the Treaty of Versailles by indicating a disposition to exclude from the contractual relationships of the United States all concern with the political situation of Europe. The French press commented bitterly on the fact that France had made sacrifices during the Peace Conference on the promise of American coöperation in insuring her security. The United States, it was said, had assured herself of all possible advantages without assuming any of the obligations considered morally incumbent upon her as the result of her participation in the Peace Conference. The American press was divided between praise and censure of the Treaty, but united in the belief that it should be ratified and that peace be established. In Germany the general feeling favored ratification, although the Communists were opposed to the reparation clauses, and the right wing of the Nationalists objected to the inclusion of the article of the Treaty of Versailles in which Germany accepted responsibility for causing the war.

When the Treaty of Berlin and its counterparts, the Treaties of Vienna and Budapest, came before the Senate, circumstances as clearly assured their ratification as they had, during 1919 and 1920, predetermined the rejection of any treaties negotiated by

the Wilson administration. In 1921 the treaties presented to the Senate had been negotiated by a newly elected administration enjoying majority support; they contained no provisions entailing upon the United States responsibilities at variance with American traditions; in fact, they imposed no burdens on the United States *vis-à-vis* Germany, and assumed no inter-governmental responsibilities as the Treaty of Versailles had done. The Senate was anxious to show that it possessed a treaty-making mind, and the public was anxious to make an end of our anomalous relations with the Central Powers with the least possible trouble. After a debate in which a few Democrats expressed a formal and unimpassioned opposition, the treaties were ratified by a vote of 66 to 20 on October 18, and were signed by President Harding on October 21. Austria, Germany, and Hungary ratified them on October 8, November 2, and December 12 respectively, and all three treaties were proclaimed before the end of December, 1921. Although the interested parties attached small importance to the contents of the treaties themselves, they welcomed them as opening the way for the regularization of relations under the treaties. This came through the agreement of August 10, 1922, providing for a mixed claims commission, the convention signed May 19, 1924, to prevent the smuggling of intoxicating liquor, and the Treaty of Friendship, Commerce, and Consular Rights signed December 8, 1923, and proclaimed October 14, 1925.

The Senate made the following reservations to the Treaty of Berlin:

(a) That the United States shall not be represented or participate in any body, agency or commission, nor shall any person represent the United States as a member of any body, agency or commission in which the United States is authorized to participate by this Treaty, unless and until an act of Congress of the United States shall provide for such representation or participation;

(b) That the rights and advantages which the United States is entitled to have and enjoy under this Treaty embrace the rights and advantages of nationals of the United States specified in the Joint Resolution or in the provision of the Treaty of Versailles to which this Treaty refers.

The incorporation of the Joint Resolution was effected by the Treaty of Berlin apart from this reservation. It is worth noting that this entitles American nationals to advantages against Germany beyond those enjoyed by the Allies under the Treaty of Versailles.[2] Those advantages, which consist mainly in holding Germany liable to the United States Government and to American nationals for losses occasioned by Germany's exceptional war measures and by the acts of her allies, will be discussed in the succeeding portion of this section.

The Senate reservations do not affect the international application of the Treaty. The constitutionality of the first of them is doubtful in that it seems to infringe upon the President's power to conduct foreign negotiations through agents. It is an item of evidence of the Senate's disposition to assume functions of the executive.

[2] See Borchard, *American Journal of International Law,* April, 1925, p. 356.

CHAPTER FOUR

THE MIXED CLAIMS COMMISSION, UNITED STATES AND GERMANY

CREATION OF THE COMMISSION

THE United States for herself and on behalf of her citizens had financial claims against Germany at the end of the war the amount of which had to be determined. Some were founded upon established doctrines of international law; as to others the United States, though less injured, less necessitous and therefore less exacting than the European Allies, nevertheless insisted upon the terms of a victor's peace. With no devastation to repair, the United States did not desire a lump sum indemnity; she dictated the principles of a settlement and left their application and the adjudication of all claims to an arbitration tribunal, the Mixed Claims Commission, United States and Germany. The personnel of this Commission were of the highest competence, and, working in an atmosphere of non-contentiousness, have performed a huge task with unexampled speed and with an impartiality which has given satisfaction to both the litigating parties and has impressed the jurists of all countries.

Whatever the truth as to "war guilt" that underlies Article 231 of the Treaty of Versailles, the United States entertained no doubt that Germany's acts had forced us into the war, and that Germany must compensate the United States and her citizens for all losses and damages caused by Germany's acts during the periods of neutrality and of belligerency of the United States and not directly arising out of America's military and naval activities. The government felt therefore that it was not inequitable to impose upon Germany a liability beyond that which would be established by the accepted principles of international law. Such a liability the United States was in a position to insist upon because of Germany's desire for a commercial relations treaty, for the American credits and favor necessary to her economic rehabilitation, and for the return of the property (or its proceeds) of German nationals se-

questrated by the United States under the Joint Resolution of Congress of May 12, 1917, and the Trading with the Enemy Act.

The Treaty of Berlin, signed August 25, 1921, which formally ended the war between Germany and the United States, imposed upon the vanquished German Government, as a condition of peace, the obligation to satisfy certain defined classes of American claims arising from the war. In pursuance of this treaty an executive agreement of August 10, 1922, created the Mixed Claims Commission, United States and Germany, for the express purpose of determining the amount to be paid by Germany in satisfaction of these claims. The jurisdiction of the Commission, therefore, is defined by the treaty; the treaty is its charter. The creation of this commission was within executive competency; the President has a right confirmed by long practice to adjust international pecuniary claims of American citizens against foreign governments, and it is the President's duty to facilitate and to carry out the terms of a treaty, regardless of his ordinary right to adjust claims.

The United States, which had definitely rejected the machinery provided by the Treaty of Versailles for the satisfaction of Germany's pecuniary liability, had, under the Treaty of Berlin, the sole right of determining the extent of these obligations, even by the appointment of an American tribunal under Congress, if she so desired; the German Government, therefore, highly appreciated the American proposal of a mixed arbitral tribunal, especially in contrast to the one-sided machinery adopted by the Allies, and for that reason gave its full coöperation.[1]

The agreement of August 10, 1922, created a commission of three members and defined its task, jurisdiction, organization, and procedure. Each government appointed one commissioner, and the two pass upon the cases presented to them; in case of disagreement an umpire, chosen by the two governments in common agreement, renders the final decision.

The unique feature of the Commission is the fact that the final power of decision was lodged in an umpire of American nationality. In the early negotiations for a mixed tribunal Germany

[1] Wirth-Houghton, Berlin, Aug. 10, 1922; Rathenau-Houghton, Berlin, June 2, 1922.

contended for a commission composed of but two members, one of whom should be appointed by each government; her experience with neutral arbiters, von Haniel said, had not been happy. Mr. Houghton, the American Ambassador at Berlin who negotiated the agreement, realized that a third member would be necessary in case of almost certain disagreement, and suggested the naming of a competent American for this position. Germany, desiring "for the sake of the record" that the language of the agreement should require the choice of the arbitrator to be made in common, was willing to rely upon the fairness of the United States and to have the umpire appointed by the President of the United States. The agreement of August 10 stated accordingly that an arbiter should be chosen by the two governments in agreement, and simultaneously Germany requested President Harding to appoint an American umpire.[2]

Other tribunals have had umpires of the same nationality as one of the parties to the controversy, but it is a rare circumstance. The Jay treaty of 1794 provided for mixed Anglo-American commissions, and the umpire, chosen either by lot or by agreement of the commissioners, might be either a British or an American citizen. Of these commissions, the London tribunal had an American umpire, Colonel John Trumbull of Connecticut; the Saint Croix Boundary Commission had an American, Egbert Benson, as umpire; the debt commission was presided over by an English umpire, John Guillemard. The tribunal created by the Anglo-American convention of 1853 for considering all outstanding claims between the two nations chose as umpire Joshua Bates, an American head of the English house of Baring Brothers. But these were not exact precedents for the present case.

The Honorable Edwin B. Parker of Texas, who has acted as umpire throughout the life of the Commission,[3] has denationalized

[2] American War Claims against Germany, Senate Documents, No. 173, 69th Congress, 2d session.

[3] President Harding first appointed William R. Day, Associate Justice of the Supreme Court, as umpire. Because of ill health Day resigned on May 15, 1923, and died soon afterward. Judge Parker, who had been appointed as the first American Commissioner, resigned from this position, and on May 21, 1923, was appointed umpire. Chandler P. Anderson was appointed on June 15, 1923, to fill the vacancy left by his resignation as Commissioner.

himself for this position, and his learned and impartial judgments have justified the confidence of the German Government in his appointment. His judicial detachment recalls the action of Lord Alverstone of the Alaskan Boundary Commission of 1903 in voting with the American members and thus making a settlement possible.

ORGANIZATION OF THE CLAIMS

THE American claims had never been diplomatically presented, and for that reason needed to be reduced to their legal aspects. The American agency set itself to this task by ordering all claims to be filed at the agency by January 15, 1923, and classified them under twenty-seven categories, each involving particular legal problems of first importance; typical test cases were selected from each category to be presented before the Commission for early adjudication.

This system of classifying the cases and making test decisions, together with the adoption of an informal procedure in handling the claims, enabled the Commission to proceed with great rapidity. The American and German agents, working together, collected the facts of each claim, and, after applying the principles laid down in previous test cases, agreed upon its validity and the amount of the award; their recommendations were usually accepted, though sometimes revisions were made after conference with the umpire. The mutual confidence of the agents made possible the success of this procedure; in most cases the commissioners were able to agree without referring a claim to the umpire.

The Decisions.

The Commission handed down administrative decisions and opinions. The administrative decisions are those involving fundamental legal principles of first importance; for example, the nationality of claimants. The opinions are decisions embracing a large number of individual claims of the same class, such as death claims arising from the *Lusitania* disaster.

The basis of decision is of course the terms of the treaty. Where no treaty provision exists, or where its interpretation is doubt-

ful, the Commission has applied international law as evidenced in international conventions recognized by the United States, international custom, rules of law common to the United States and Germany, and general principles of law recognized by civilized states, and has accepted judicial teachings of publicists. It has considered itself bound by no particular code of law, but, as far as the treaty provisions allow, has been guided by justice and equity.

THE NATURE AND SOURCES OF GERMANY'S LIABILITY

THE Treaty of Berlin founded the liability of Germany upon the theory that she alone was responsible for the entry of the United States into the war; since German resources were inadequate to fulfil all demands based upon that responsibility, her financial obligations were limited to compensation for all civilian losses of the Allies incurred as a consequence of the war.

The claims for which Germany accepted liability were defined, not in the Treaty of Berlin alone, but in various documents incorporated in that treaty containing identical classifications: Art. I of the Treaty of Berlin, Art. 297 (Annex, 3 and 4), Art. 232 and Annex of the Treaty of Versailles, Sections 2 and 5 of the Knox-Porter Resolution, and also in Article I of the agreement of August 10, 1922.

The total liability embraced five main classes of claims:

(1) Claims of the United States Government for the cost of the American Army of Occupation, and for the destruction of non-military government property. (Art. 232, Annex I, 9, of the Treaty of Versailles.)

(2) Losses arising from the application of exceptional war measures prohibiting the withdrawal of American property from Germany during the period of hostilities. (Art. 297, e.)

(3) Debts owing American nationals by German nationals. (Art. 297, Annex, 4.)

(4) Loss or damage suffered by American nationals from acts of Germany during the neutrality period of the United States. (Art. 232, Annex; Art. 297, Annex, 4; Art. I, Sections 1 and 2 of the Agreement of August 10, 1922.)

(5) Loss or damage suffered by American nationals during the period of belligerency from

a. maltreatment of prisoners by Germany,

b. all injuries to civilian persons or their property inflicted by Germany or her Allies,

c. all damage to property, naval and military excepted, inflicted by any belligerent as a consequence of hostilities. (Art. 232, and Annex.)

PRIVATE CLAIMS

ADMINISTRATIVE Decision I of the Commission defined the claims contained in the above categories (4) and (5) by stating them as follows:

A. All losses, damages, or injuries to their property, wherever situated, suffered directly or indirectly during the war period, caused by acts of Germany or her agents in the prosecution of the war, provided, however, that during the period of belligerency damages with respect to injuries to and death of persons, other than prisoners of war, shall be limited to injuries to and death of civilians; and also

B. All damage suffered by American nationals during the period of belligerency caused by:

1. Germany through any kind of maltreatment of prisoners of war;
2. Germany or her Allies and falling within the following categories:
   a. damage wherever arising to civilian victims of acts of cruelty, violence, or maltreatment (including injuries to life or health as a consequence of imprisonment, deportation, internment, or evacuation, of exposure at sea, or of being forced to labor), and to the surviving dependents of such victims;
   b. damage, in territory of Germany or her Allies or in occupied or invaded territory, to civilian victims of all acts injurious to health or capacity to work, or to honor, and to the surviving dependents of such victims;
   c. damage to civilians by being forced to labor without just remuneration;

d. damage in the form of levies, fines, and other similar exactions imposed upon the civilian population;
e. damage in respect of all property (with the exception of naval and military works or materials) wherever situated, which has been carried off, seized, injured, or destroyed, on land, or sea, or from the air;

3. Any belligerent and falling within the following categories:
a. damage directly in consequence of hostilities or of any operation of war in respect of all property (with the exception of naval and military works or materials) wherever situated;
b. damage wherever arising to injured persons and to surviving dependents by personal injury to or death of civilians caused by acts of war, including bombardments or other attacks on land, on sea, or from the air, and all the direct consequences thereof, and of all operations of war.

It is to be noted that pensions to disabled soldiers and "separation allowances" to their dependents were not included among the claims of American nationals, though contained in those sections of the Treaty of Versailles which were incorporated by reference in the Treaty of Berlin. The conviction of the justice of such claims which seized upon Wilson after long resistance[4] had not extended to the American people, nor could the logical mind of Secretary Hughes accept the conclusion that they constituted a civilian loss; accordingly in an exchange of notes simultaneous with the ratification of the agreement of August 10, 1922, President Harding promised Germany not to press these claims.[5]

The enunciation by the Commission of another principle applicable to the claims further reduced their volume. In the second administrative decision the entire Commission adopted the familiar rule of law known as "proximate cause" which Umpire Parker applied as follows:

The proximate cause of the loss must have been in legal contemplation the act of Germany. The proximate result or consequence of that act must have been the loss, damage, or injury, suffered. . . .

[4] See Section IV, Chapter 1, "Reparations," p. 336.

[5] Opinions of the Commission, 15, note 11; for exchange of notes see Treaty Series No. 665, p. 5.

All indirect losses are covered, provided only that in legal contemplation Germany's act was the efficient and proximate cause and source from which they flowed.[6]

The Treaty intended no abrogation of this rule. An American national, therefore, must prove any loss to have been the proximate result of an act of Germany. No rule can be formulated defining "proximate." Its determination lies within the personal discretion of the judge.[7]

Under this principle the Commission dismissed the claims of American nationals for premiums paid on war risk insurance policies ($300,000,000). No property was damaged or destroyed or injured; the premiums were paid as protection against acts which never occurred. Like the increased cost of food they were merely incidents of general warfare. The causal connection between the loss and Germany's act was intricate and legally broken.

The life insurance claims were decided on the same grounds. Ten life insurance companies claimed loss in respect of accelerated payments on life insurance policies resulting from deaths on the *Lusitania*. Germany's acts were the immediate cause for the maturing of these contract policies, but the loss occasioned the companies resulted from a contract which existed independently of any act of Germany. The loss, therefore, was merely incidental to Germany's acts—that is, was legally remote. Insurance premiums, in general, have been disallowed by arbitral tribunals.

The Eisenbach Brothers case involved a claim for property lost on a ship destroyed by striking a mine one year after hostilities had closed. The German commissioner contended that the loss was not in consequence of hostilities as the armistice agreement had provided for the "cessation of all hostilities at sea." Umpire Parker's decision stated that the planting of the mine was an act of hostility which accomplished the exact thing for which it was originally intended. The loss, although remote in time, was in legal consequence a proximate result of hostilities, and Germany was liable.

The *Mohegan* claim was based on damage to a ship's engines

[6] Opinions of the Commission, 12-13.

[7] See Borchard, *Diplomatic Protection of Citizens Abroad*, p. 418.

resulting from the high speed attained in escaping a submarine. Germany denied that this loss was a proximate result of her own act. The umpire held that any such loss was as much a direct result of Germany's act as if the vessel itself had been sunk by a submarine; but he went on to hold that the claimant had failed to prove any damage and rendered judgment for Germany. A recital of many other decisions, equally interesting, would illustrate the impartiality of the umpire.

The Commission had to make a general decision upon the question of nationality as presented by the terms of the Treaty of Berlin. The Treaty obligated Germany to compensate the claims of "all persons, wheresoever domiciled, who owe permanent allegiance to the United States. . . ."[8] States, in general, press only the claims of their own nationals. The practical difficulty was to determine when and how long a claim must be of national ownership. The Commission adopted the common rule that a claim must be national in origin; that is, at the exact moment the loss occurred the sufferer must be an American national.[9]

Interesting cases arose in connection with this decision. The sinking of the *Lusitania* resulted in the death of aliens whose dependents were American citizens. Umpire Parker decided that these facts created constituted claims of American origin. The Vattel theory, hitherto followed by states, deems the injury to a national to be an injury to his state. The award is made to compensate the state's injury, not the individual's loss. Consequently the death of an alien would not give rise to an American claim, for it was an alien state which was injured, not the United States. The umpire preferred to take the view that awards are made to compensate individuals for the losses suffered by them, and that the loss sustained by an American citizen through the death of an alien is as real as if the loss had resulted from the death of another American citizen. It is difficult to see why legal fiction should obscure that fact and allow injustices to go unremedied.

Claims of declarant seamen, declarants of long residence in the United States, and of declarants naturalized subsequent to their

[8] Knox-Porter resolution, section 5.

[9] *American Journal of International Law*, Jan., 1925, pp. 137-140.

injury were rejected on the ground that the claimants did not owe permanent allegiance to the United States at the time of the injury. The decisions, with the exception of that of declarant seamen, were in accordance with the usual practice of the United States.

In the case of Mary Borchard Williams, an American woman married to a British citizen claimed loss from the death of her husband on the *Lusitania*. The American citizenship law of 1907, effective in 1915, provided that an American woman takes the nationality of her alien husband, but may resume American nationality upon the death of her husband, by registering abroad with an American consul or by returning to this country or by continuing to reside in the United States. As the wife in this case had remained in the United States since the marriage, the question was when had she resumed American citizenship. It was pointed out that the statute says she "may resume" American nationality. This implies a conscious choice on the part of the wife, which could be made only after the husband's death, and the interval, however brief, would suffice to destroy the American origin of the claim; but the umpire decided that American nationality was resumed *eo instanti*, at the very instant of the death of her husband, and that therefore the claim was American in origin.

The case finds a parallel in Hales v. Petit,[10] argued in the fourth year of Elizabeth's reign, whose hair-splitting logic was parodied in the gravedigger scene in Hamlet. Sir James Hales had committed suicide by drowning, a felony, and the question was whether or not the felony had been committed in his lifetime; if so, there would be escheat of the estate to the Crown. The act of self-destruction was done in his lifetime, but it was argued that the act was then not a felony, for until death no life would have been taken; the answer was that the death which consummated the felony and the forfeiture of title to the Crown were simultaneous in logic as in time. The wife's title could in logic be acquired through inheritance only *after* the termination of her husband's ownership caused by his death; when the break in title occurred the estate already belonged to the Crown.

[10] *Plowden's Reports*, London edition of 1816, vol. 1, p. 253.

The umpire followed an opposite logic in the Williams case and placed the wife's resumption of citizenship in the same moment as her husband's death. Lord Dyer, whose oral opinion in Hales v. Petit is reported by Plowden, seems to have the better of the argument; it is hard to see how a woman can be a widow during her husband's lifetime![11]

Arbitral tribunals usually require a claim to be of continuous national ownership from its origin to the date of presentation, or even perhaps to the final date of adjudication. Umpire Parker departed from this rule by requiring national ownership at the date of the coming into effect of the Treaty of Berlin, November 11, 1921. The treaty, he said, created for American claimants property rights hitherto non-existent. The Commission, being bound by the terms of the treaty, was not competent to divest American claimants of rights derived from that treaty; a change of nationality subsequent to the ratification was therefore immaterial, and could not affect the obligation of Germany to pay claims, or the right of the United States at her election to demand their payment.

The German commissioner dissented from this decision on the ground that the treaty should be interpreted in the light of international law. The traditional theory of claims presentation required national ownership of a claim from its origin until the final moment of adjudication. Presentation of a claim by the United States Government, he urged, did not merge the private rights in a claim into national rights, and the Commission was competent to inquire into the private ownership of a claim up to the last moment

[11] The position of the umpire was that it was even harder to see why a woman born an American national, who had always resided in the United States and at the time of her husband's death was in the United States with the fixed intention of remaining there, could not on the moment of the termination of the marital relation by her husband's death become an American national. The claimant was by statute *eo instanti* deprived of her American citizenship when she married a British subject. As pointed out by the umpire this statutory rule had its source in the ancient principles of identity of husband and wife. The statute in effect provided that on the termination of the marital relation, in which the reason of the rule had its source, the operation of the rule should cease. All that the statute required of the claimant was that she do nothing but passively permit the statute to clothe her with the American citizenship of which this same statute had deprived her during the period of her marriage to a foreign citizen.

of its adjudication. Moreover, the general reference to claims in the Treaty of Berlin in no sense constituted presentation, for claims were presented individually, not by collective reference; the date, November 11, 1921, was therefore without significance as regards the nationality of the owner.

THE RELATION OF GERMANY'S LIABILITY TO STATE LIABILITY UNDER INTERNATIONAL LAW

THOUGH the Commission, acting under and interpreting the terms of a treaty, had no concern with the legality or illegality of Germany's liabilities as measured by rules of international law, it is of interest to inquire whether these obligations had any validity in international law, or depended solely on Germany's treaty agreement to pay them.

The claims of the United States Government are of two types. The charge of $255,000,000 arising from the cost of the American army of occupation is purely a political claim, for no state is under a legal duty to support hostile operations against itself, or to facilitate its own destruction. This claim, it is understood, will not be presented to the Commission because its payment is provided for in the Finance Ministers' Agreement at Paris, January 14, 1925. The remaining government claims, on which awards have been made to the amount of $42,000,000, arise from the destruction by Germany of non-military property of the American Government which was controlled by organizations created for the express purpose of furthering the war. For this reason, the claim depends solely upon the treaty.

The claims for which the German Government assumed responsibility included debts of German nationals to American nationals. No American claims convention has contained a provision to this effect.[12] Courts have held that governments are liable for the debts of their nationals only to the extent that payment is interfered with by law. This provision must be regarded as of a political nature.

Claims arising from the application of "exceptional war meas-

[12] *American Journal of International Law*, Jan., 1925, p. 143; Moore, *Principles of American Diplomacy*, p. 309.

ures" constitute a novelty in international law; no arbitral tribunal has undertaken to define the term. According to Art. 297, Annex 3T of the Treaty of Versailles it means measures of any kind affecting the title, transfer, supervision, or sequestration, of alien enemy property. These measures affected American property in Germany chiefly through the depreciation of currency. When the exceptional war measures were first applied, the mark was worth seventeen cents; when the prohibitions had been removed, it was worth two cents. The removal from Germany of bank deposits, securities, bonds, and property within German territory belonging to American nationals was forbidden, and when these prohibitions were abolished in 1920 the property had lost seven-eighths of its value through the depreciation of the mark.

Exceptional war measures, in so far as they affected American property through the depreciation of the mark, do not create valid claims under international law. A state has the right to stop all communication between itself and the enemy state either by statute or *ipso facto* the declaration of war itself, and may supervise alien enemy property to prevent its giving benefit to the enemy. Furthermore, a state cannot be held liable for the depreciation of its currency, a phenomenon frequently beyond its control. Were such consequential losses grounds for claims in international law, the United States would be liable to German nationals for the losses caused by the seizure of their property in the United States and its sale at an inadequate price. It follows, therefore, that the exceptional war claims are solely a treaty obligation.

Administrative Decision I holds Germany responsible under the Treaty for certain acts committed by her allies, and in other cases for acts committed by either belligerent. The principle of proximate cause, a rule fully recognized by international law, imposes responsibility only for those losses which are the proximate results of a state's own acts. Since the act of another state, Austria for example, cannot be the legal consequence of an act of Germany, it follows that these claims would be invalid except for the Treaty.[18]

The neutrality claims embrace all loss or damage suffered by

[18] *American Journal of International Law,* Jan., 1925, pp. 135-136.

American nationals to their persons or property during the period of American neutrality through the acts of Germany in the prosecution of the war. This provision includes various claims some of which would be valid under international law and others of which would not be so valid. Among the former are the confiscation of private property, unjustly harsh personal treatment, forced labor, military levies and fines. Since neutral aliens resident in a belligerent state possess, however, no more rights of compensation against the enemy than do civilian citizens of the same state, all personal or property injury or loss suffered by such neutrals as an accident of war creates no claim for compensation. Occupants of hostile territory may impose such restrictions on the civilian population as are required to make the occupation effective, to keep order, or to prevent hostile conduct. This, of course, applies to neutral residents as well as to civilians of the enemy belligerent. The losses suffered by neutrals who render unneutral service such as the violation of a blockade, the carriage of contraband, or spy work, are entitled to no compensation under international law.

As the legality of a claim proceeds not from a distinction between alien neutral resident and enemy civilian, but from a distinction between combatant and non-combatant, American civilians after the American declaration of war possess nearly the same rights of compensation as they did before the declaration. Their property may be sequestrated, but it may not be confiscated, and they are to be compensated for any damage suffered. Their personal liberty may be restrained to prevent injury to the enemy state of their residence, but unduly harsh treatment in any case gives rise to claims for compensation. The difficulty, of course, is to determine whether a particular act is no more rigorous than necessity requires or whether it transcends this point and creates a right to compensation. No set rule can be formulated; each individual case must be determined on its merits.

THE AMOUNTS CLAIMED AND ALLOWED

THE aggregate amount of all claims filed with the Commission up till April 10, 1923, was $1,479,064,313.92. The actual and esti-

mated awards made on these claims up till January 23, 1928, amounted to $174,876,496.38 which interest to January 1, 1928, increased to $252,966,523.97.

AWARDS OF COMMISSION
TO JANUARY 23, 1928, WITH INTEREST TO JANUARY 1, 1928

In dollars

I. PRIVATE AWARDS

	Death cases	*Property cases*	*Total*
Amount of award	3,387,030.00	107,454,671.97	110,841,701.97
Interest on award	705,245.60	48,381,214.96	49,086,460.56
Total	4,092,275.60	155,835,886.93	159,928,162.53

II. GOVERNMENT CLAIMS

	Property damage	*Total*
Amount of award	42,034,794.41	42,034,794.41
Interest on award	19,203,567.03	19,203,567.03
Total	61,238,361.44	61,238,361.44

III. TOTAL AWARDS RENDERED

	Original award	*Interest on original award*	*Award plus interest*
U. S. Government	42,034,794.41	19,203,567.03	61,238,361.44
Private claims	110,841,701.97	49,086,460.56	159,928,162.53
Total	152,876,496.38	68,290,027.59	221,166,523.97
		Interest thereon	
Estimated awards remaining	22,000,000.00	9,800,000.00	31,800,000.00
Probable total	174,876,496.38	78,090,027.59	252,966,523.97

The act of March 10, 1928, requests the President to agree with Germany in extending the time of presenting claims from April 9, 1923, the final date agreed upon in 1922 by the two governments, to July 1, 1928. This provision would allow some $5,000,000 to $10,000,000 of claims presented subsequent to April 9, 1923, to be considered by the Commission. It is thought that not more than half of these claims will be meritorious.

THE MANNER OF PAYMENT

In the usual case awards received from foreign governments are deposited with the Secretary of the Treasury, held by the United

States Government in the capacity of a trustee, and paid out to the individual claimants. Germany, however, was bankrupt and could not make immediate payment, so other means had to be found for paying the awards.

A settlement was effected through the Dawes Plan. The Dawes annuities include the entire sum of payments imposed upon Germany by the peace treaties. This fund was allocated among the various claimant states by the Finance Ministers' Agreement at Paris, January 14, 1925.

Article III of that agreement provides for the two types of American claims:

(a) The cost of the American Army of Occupation constitutes a first charge on the Dawes annuities. Beginning on September 1, 1926, and continuing until the whole amount is extinguished, the United States receives fifty-five million marks per year without interest. If Germany continues to meet these obligations, as she has thus far, the claim will be paid in 26 years.

(b) Two and one-fourth per cent of the annuities, not to exceed forty-five million marks per year, is set aside for the payment of the awards of the German-American Mixed Claims Commission. Thus, the United States receives annually $10,700,000, at which rate 61 years would be required to pay all the awards of the Commission.

This situation was remedied by the Settlement of War Claims Act approved March 10, 1928, which provides for the payment of the awards direct from the United States Treasury. Germany remains liable as before to the full extent of the awards as fixed by the Paris Financial Agreement, but according to Section 2 h of the Act, American private claimants whose awards are not in excess of $100,000 are to be paid at once from the Treasury Department. The death and personal injury claims representing 95 per cent in the number of awards made have now been paid in full; the others are to be paid in annual instalments and fully paid within a few years.

The Act creates in the United States Treasury a special fund known as the "German special deposit fund," from which all pay-

ments provided for by the Act are made. This fund is derived from several sources:

(a) One-fifth of the sequestrated German property retained for the present, approximately $40,000,000.
(b) An unallocated interest fund consisting of interest accrued prior to March 4, 1923, on bonds purchased with money deposited in the Treasury by the Alien Property Custodian, approximately $25,000,000.
(c) Government appropriations to the present amount of $50,000,000.
(d) Receipts from Germany under the Dawes annuities amounting to $23,000,000 on September 1, 1928.

Thus the funds now available for payment on claims amount to $138,000,000.

The disbursement of this sum follows certain rules set forth in the Act. An individual claimant who avails himself of its provisions loses all further interests in the payments on his claim of Germany to the United States Government. All awards remaining unpaid after 1928 bear 5 per cent simple interest. No payments are made on government claims until all private awards are satisfied. Rules of priority as to payment are made in the general order of (1) death and personal injury claims, (2) property awards under $100,000, (3) proportional payment on property awards over $100,000, (4) all amounts still remaining unpaid, including claims of enemy nationals. As thus provided all private awards will be paid in full at the end of 26 years.

V.

LIMITATION OF ARMAMENT

CHAPTER ONE

INTRODUCTION

PRE-WAR ARMAMENTS

THE problem of armaments is as old as history, but as Professor Baker points out, "it is only from 1860 onwards that the governments began to build up their modern forces, and to give their fleets and armies their present scale and form." "Between 1898 and 1908 all the Great Powers among them increased their military and naval budgets by about £100 million—£10 million a year. For the next six years the six Great Powers of Europe alone increased their budgets by more than £100 million a year. It is from 1860, therefore, that modern militarism must be said to date; and its greatest strides were in the last two decades before the war broke out."[1]

This condensed summary of the dizzy growth of armaments in the half-century before the World War has been expanded in detailed statistical statements by many authors. Figures based on different standards are available in such reference books as the *Statesman's Year Book*, but as budget classifications differ from country to country and have differed in each country from decade to decade—many military expenses being hidden under civilian labels; for instance, military training under educational appropriations—such attempts to assess costs of armaments are always open to dispute. There is equal difficulty in stating the growth of military establishments in terms of the number of enlisted men or in terms of equipment. The above-quoted summary clearly presents the general facts and is the more impressive by its lack of disputable details.

This piling up of armaments in an almost geometrical progression correlative in type and in cost with technical discoveries and improvements such as the Bessemer steel system was obviously associated with increasing political tension. Its early phase was marked by the disturbing career of Napoleon III, the struggle

[1] Baker, Philip Noel, *Disarmament*, p. 4.

for national unity in Italy and the foundation of the German Empire, *durch Eisen und Blut*. The later phase was marked by the crystallization of the two opposing coalitions, the Triple Alliance and the Triple Entente. Each diplomatic crisis of the new century—Algeciras, Bosnia and Herzegovina, Agadir—was promptly reflected in increased military budgets. The crushing of Turkey in the first Balkan war, an important element on the German side of the balance of power, was the reason given by the governments for the last great increase in armaments just before the World War.

The history of this same period in the United States was strikingly different. When the forces mustered for the Civil War were demobilized, our interest in military affairs waned. Armies and navies cannot be maintained for parade purposes; they become like the post-revolutionary "train bands" of our grandfathers which used to decorate the "commons" of New England. Unless there is work for a fighting force to do, unless there is an enemy in sight, morale declines and popular interest in its support fails. As there was no apparent menace from any quarter in the decades after the Civil War, Congress refused to support any large military establishment.

The Spanish War in 1898 caused a short-lived flutter of militarism. As soon as victory had been secured, interest in the army faded away; Congress and the country felt too secure from attack to be stampeded into appropriations for an army on anything like the European scale. The navy fared better because its advocates were able to arouse apprehension over a "Japanese menace." We were acquiring overseas responsibilities in the Philippines and Panama; our overseas commerce was expanding; enough of our people became worried over the danger to make possible a modest increase in naval appropriations.

This contrast in the development of armaments was the subject of much discussion in the years before the war. Norman Angell was trying to persuade the old world that the piling up of armaments was futile and dangerous; other writers in the great countries were writing to persuade their respective governments that their lack of armaments was dangerous and in particular to con-

vince the United States that only by becoming a great sea Power could we protect ourselves from disaster.

THE EXPERIENCE OF THE WAR

THAT the actual events of so great a war as that which broke out in 1914 should disprove or profoundly modify many theories in regard to the problems of war and peace was inevitable. Admiral Mahan wrote in the *Atlantic Monthly* in September, 1893:

> That the organization of military strength involves provocation to war is a fallacy, which the experience of each succeeding year now refutes. The immense armaments of Europe are onerous; but nevertheless, by the mutual respect and caution they enforce, they present a cheap alternative, certainly in misery, probably in money, to the frequent devastating wars which preceded the era of general military preparation.

It was commonly said at the outbreak of the World War that this theory was disproved and that the reverse was true and ought always to have been recognized, but the statement was shallow. Prior to 1914 it was still a debatable question whether great armaments, which of course did not prevent war but did check their frequency as among the Great Powers, did or did not permit a greater total advancement in civilization than was possible in the preceding period of frequent wars. The great lesson of 1914-18 is that modern war among Great Powers is conducted on such an enormous scale and with such a development of agencies of destruction that for the first time in history it is becoming possible that civilization may not be able to withstand the shock. Those also, who, like Norman Angell, took the other side of the argument before the war, would today have to qualify many of the statements which they then wrote in good faith.

The war proved to be so different from what the General Staffs had expected that their preparations were shown to be inadequate. Much of the equipment piled up in the arsenals proved valueless. France had accumulated in times of peace 1500 rounds of ammunition for each of her 75 mm. field guns and planned to produce 13,000 shells a day. This "preparation" was so inade-

quate that in the Battle of the Marne about September 12, less than two months after the declaration of war, the army of General Foch was reduced to ten shots per gun per day. The inadequacy of the pre-war preparations was further demonstrated by figures recently given by Field Marshal Sir William Robertson before the Lincoln Chamber of Commerce in England.[2]

The artillery bombardment at Messines cost the British Government £17,500,000, and the weight of ammunition fired was 85,000 tons; the artillery fire in the third battle of Ypres cost £22,000,000: no General Staff in 1913 had dreamed that modern war would be like this. The British Admiralty had spent immense sums in preparation but it was inadequate to cope with German submarines. In spite of the general preparation for war from 1860 to 1914 the equipment of the belligerents was absurdly inadequate in a conflict of such scope and duration. The war would have come to an indecisive end if, during its course, it had not been possible to manufacture better and more ammunition than the General Staffs had imagined possible; this demonstrated that security, based solely on military preparation for what professional soldiers imagine the next war will be like, is a mirage.

The events of the war demonstrated that the "invisible" elements of war-power are more important than "visible" armaments. From the large view of strategy one of the most striking developments of the war was the utilization of factors that had not previously been considered military. It was not enough to man the front line, it was necessary to draft chemists for research in high explosives and poison gas, mathematicians to develop range-finders, managers of hotels to organize hospitals. At first the French "over-mobilized" and had to comb the regiments at the front to find trained men and bring them back for the equally important war work behind the lines. Women were called upon not only to roll bandages but also to fill shells; schools were closed so that children could till the fields.

In the end victory came not to those nations which had most docilely followed the advice of the General Staffs, not to those which had most generously voted funds for the military equipment

[2] *New York Times*, Nov. 9, 1927.

their army and navy advisers demanded, but to those who could tap and organize the greatest industrial resources. The safety of a nation, at least of one secure against sudden attack by the whole military power of an enemy, depends, as President Coolidge has said, less on the piling up of armaments, than on a sturdy, contented and loyal citizenry, a healthy economic system, sound credit, and just dealings with other nations.

Another development of the war which cannot be ignored was its effect on neutrals. As the conflict increased in intensity, its effects spread in all directions. As month followed month, more remote districts—having no responsibility for the origin and little direct interest in the outcome of the war—found themselves involved. Stock exchanges were closed in Holland, bankruptcies occurred in Valparaiso, Shanghai, and St. Louis; lack of coal caused unemployment in Switzerland; interruption of imports reduced Italy to war-bread; African natives were drafted into military service. Scientific societies turned from research to recrimination, from progress to propaganda. In a thousand ways, some crude and obvious, some subtle and devious, the peoples who wanted to keep the peace found their lives touched and distorted by the conflict. The strenuous efforts made by various governments to hold the balance of neutrality even between the two groups of belligerents were of little avail. War overrode such scraps of official paper, crashed through the traditional, legal conception of neutral rights. In spite of the distance of the United States from the theater of operations, in spite of her unusually large degree of self-sufficiency, she quickly became involved in the controversy.

The war was not a week old before all American overseas trade was sadly disorganized. Lacking a mercantile marine, we were dependent on British bottoms for both export and import, although at the same time British ships were being taken over by the British Government for war purposes. The British Admiralty, having at once established supremacy on the surface of the sea, began a rigorous attempt to cut the trade of Britain's enemies, and in this traditional enterprise could not be solicitous of the interests or opinions of neutrals. Orders in Council quickly

obliterated the time-honored distinction between "innocent" and "contraband" cargoes. We were not disposed to surrender what we considered to be our established rights and, as the strongest of the neutral nations, found ourselves appealed to as the natural defenders of the rights of neutrality. The exchange of notes between Washington and London became increasingly acrimonious, and where this controversy would have ended no one can say; it was quickly overshadowed by a more serious controversy with Germany.

With almost incredible stupidity the Central Empires distracted our attention from the bitter dispute with the Allies by the injudicious use of their new weapon—the submarine. Viewed juristically, one violation of right may be as reprehensible as another, but from the human, political point of view, murder stirs more ire than larceny. The invasions of our right, of which we accused the Allies, were attacks on property; German under-sea warfare was a direct attack on the lives of our citizens. This gave us an immediate interest in the war which transcended the advantages of neutrality.

Another effect of the war experience on the problem of armaments was psychological, difficult to state concisely, but none the less important. The reality of war immensely strengthened all the arguments against war itself. The sudden surrender of the age-old attempt to build a civilization on the rule of reason to the stark gamble of war shocked the collective mind of man. As soon as the guns began to roar it was evident to all that it mattered little who was right, that the decision rested upon force and to an appalling degree upon luck.

As the horror and ruin of the war mounted from month to month, more and more people who had never thought of such things before turned their attention to the possibility of freeing civilization from this suicidal mania. When, after the war, the fruits of victory turned out to be bitter ashes, when it became more and more evident that, no matter who won, humanity had been defeated, this search for escape from war, this revolt against the dominance of Mars, became the more intense.

As long as war is regarded as a matter of fate, inevitable, un-

escapable, the problem before each nation is how to profit by past experience, how best to prepare for the ordeal. As soon as the idea gains currency that war may be prevented, the whole basis of the problem of armaments is profoundly changed. The last war, more universal than any earlier one, more costly in blood, more generally destructive of welfare, persuaded a larger group than ever before that its repetition must be prevented.

The war made it evident that it is increasingly difficult in modern conditions to maintain neutrality. Naval war, especially, affects the life of all nations; unless the rights of belligerents and neutrals are legally defined and effectively guaranteed, the nations which wish to keep the peace in any next war will find themselves again in controversy with both fighting groups, and in the heat of conflict belligerents give scant heed to the protests of neutrals unless they are backed up by armaments.

THE PEACE CONFERENCE

Even before the war there was a popular sentiment that militarism in time of peace—the piling up of armaments, the subordination of the civilian's to the soldier's point of view—greatly increased the danger of conflict. The war itself intensified this feeling. Lord Grey, British Foreign Minister during the struggle, has since frequently expressed this conviction. Abroad, as well as at home, many shared this view, and there was great popularity for the slogan "The war to end war"; the demand for relief from the burden and danger of armaments was so insistent that it could not be ignored by the Peace Conference.

As a first step toward satisfying this demand, the victorious Allies undertook the forcible disarmament of the defeated coalition. Part V of the Treaty of Versailles—copied in all the other treaties drawn up by the Peace Conference—goes into great detail in limiting the number of men and the amount of equipment to be permitted for the German military establishment.

While the figures set for German armaments by the Treaty were a drastic reduction from the pre-war European standard, it is worthy of note that her enemies in 1919 allowed her to maintain

a military force which, as Professor Baker points out, is relatively greater than that of Argentine, Brazil, or Chile.

Not content with the forcible disarmament of the defeated countries, the victors explicitly committed themselves to the reduction of their own armaments. Part V of the Treaty of Versailles opens with these words: "In order to render possible the initiation of a general limitation of armaments of all nations, Germany undertakes strictly to observe the Military, Naval and Air clauses which follow."

When the draft of the Peace Treaty of Versailles was first presented to the German delegation in May, 1919, they made the following observation upon Part V.: "Germany is prepared to agree to the basic idea of army, navy and air regulations—provided this is a beginning of a general reduction of armaments." To which the Allied Powers in their famous answer replied: "The Allied and Associated Powers wish to make it clear that their requirements in regard to German armaments were not made solely with the object of rendering it impossible to resume her policy of military aggression. They are also the first step towards the general reduction and limitation of armaments which they seek to bring about as one of the most fruitful preventives of war, and which it will be one of the first duties of the League of Nations to promote."[3]

Recognizing that this was in fact a definite legal obligation, the Allied and Associated Powers wrote the commitment into the Covenant of the League of Nations. Article VIII begins: "The Members of the League recognize that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations."

Uncertainty has arisen over the precise meaning of the phrase, "national safety." Some hold that it means "domestic safety," according to the fourth of the Fourteen Points: "Adequate guarantees given and taken that national armaments will be reduced to the lowest point consistent with domestic safety"—that is, internal police power. Others maintain that this is too limited a definition and that, at least till the organization of the world has

[3] Baker, *op. cit.*, p. 25.

become more stable, "national safety" implies power to resist aggression from outside. As none of the statesmen of the Allied and Associated Powers would admit that they had reduced the military establishment of Germany below the level of "national safety," the standard set in Part V of the Treaty of Versailles must be accepted as the official interpretation of this phrase. The ideal which the League has set for itself is the reduction of armaments to the police level, to assure respect for constituted authority within each state and for international authority.

The effort to realize this ideal, both by the organization of the League and by forces outside of it, is the subject of this section. The discussions which this effort has evoked have modified the too simple idea that armaments are the cause of war. Close thinking and hard debating on the subject have brought many, if not most, students to the view that armaments are rather caused by the war-spirit. It is too materialistic a position to put all the blame on the guns; at least equal attention must be devoted to the men behind the guns.

But no such shift in point of view lessens the importance of the problem of reducing armaments. Even if the piling up of the tools of war is not the main cause of war, the height of the pile of arms is the best measure we have of the war-spirit. We may be confident that decrease in armaments is an indication of stability and peace; the level of armaments is a thermometer which all can read; every reduction means a waning of the war-fever, an approach to the reëstablishment of health and peace.

This section concerns itself only with the apparatus and material, military and naval, manufactured for employment solely in war. There are, of course, resources of other kinds of which a nation avails itself in making war—all its industrial strength which produces strategic railroads, camions for the transportation of troops, facilities for the manufacture of agricultural tractors which can promptly be turned to the production of "tanks," and so on. There is an incalculable fertility in the invention and output of chemical and scientific products which may at any time be turned to the production of asphyxiating or poisonous gases or new engines of destruction. The dynamics of such developments,

which, as we have indicated, can be predicted by military technicians at best imperfectly, are for the same reasons not subject to disarmament control. The industrial evolution of the nations cannot be limited unless all governments were to revert to a despotic centralized state. The chemistry of war, as Professor Shotwell has pointed out in the *Journal de Genève*, is inextricably intertwined with that of peace. The remedy for sleeping sickness, for example, of priceless value to mankind, was discovered in the building where poison gas was manufactured. "The same chemists are at the same moment serving the arts of healing and of destruction. Direct limitation of production is idle, for the slightest change in a formula of industrial usage suffices to create poison gases or explosives of tremendous power."

Even a pruning hook can be made into a lethal weapon and plowshares be used for the digging of trenches. The diminution of war armaments, the sense of international security and of an organized world order which should cause the diminution and be likewise augmented by it, are the only protection against a covert preparation for war through the material of peaceful industry.

CHAPTER TWO

GENEVA

CREATING MACHINERY

THE first steps toward carrying out the obligations to reduce their armaments, which the victorious Allied and Associated Powers had accepted, were taken by the League of Nations. The rejection of the Treaty of Versailles by the Senate at first sharply separated American diplomacy from the work at Geneva; whatever contribution the United States could make to the disarmament movement was outside of the League of Nations. Eventually, by authorizing the American Minister at Berne to attend meetings of League committees as an "observer," and finally by sending a strong American delegation to the Preparatory Commission for a General Disarmament Conference, Washington came into contact with Geneva. In the following pages there will be, first, a review of the five years of effort at Geneva, up till 1926; next, a discussion of the Washington Conference on the Limitation of Naval Armaments, a separate American enterprise without connection with the work of the League of Nations; then a commentary on the Preparatory Commission for a General Disarmament Conference, which had not completed its work at the end of 1927 and in which the American Government has participated; and finally a description of the 1927 Three Power Conference and its aftermath.

The Council of the League, at its session in Rome on May 17, 1920, in pursuance of Article VIII of the Covenant created a Permanent Advisory Committee consisting of officers of the land, air, and sea forces of the countries represented in the Council. This Committee, composed solely of men of military career, came to be referred to as P.A.C.

The first Assembly of the League met at Geneva in November, 1920, and devoted considerable time to discussion of the obligations of Article VIII of the Covenant.

The P.A.C. was the first of a long series of committees established by the League for the study of this problem. It was felt that

progress would be altogether too slow if the subject were approached solely from the military standpoint, and the Temporary Mixed Commission (T.M.C.), was set up by the First Assembly in order to include civilian elements. Much valuable spade work was done by the P.A.C. and the T.M.C. Somewhat later the Joint Committee was appointed to obtain the opinions of experts in economics and finance and to give a voice to organized labor. When purely political questions arose, they were dealt with by a Committee of the Council, a body consisting of political representatives of the states which sat on the Council. It is sometimes difficult to make sharp distinctions among these various organs, but each one brought a fresh point of view to the discussion. No one of them has succeeded in solving the problem, but they have collected a valuable body of information.

A "Disarmament Section" was created within the Secretariat. Besides the secretarial work involved in the meetings of all these committees, this section was entrusted with the carrying out of the last paragraph of Article VIII of the Covenant. "The Members of the League undertake to interchange full and frank information as to the scale of their armaments, their military, naval and air programmes and the condition of such of their industries as are adaptable to warlike purposes." This section has published the Armament Year-Book and so has contributed greatly to a statistical study of the armament problem.

Great difficulty must be faced in securing dependable statistics on the number of men under arms today. The difficulties are even greater in finding pre-war figures to compare with them. The estimates of the number of men under arms in Europe in 1913 varied from 4,750,000 to 5,250,000. In 1927 the estimates run closer, from 3,500,000 to 3,750,000.

Against this undoubted reduction of the number of men undergoing military service must be offset the improvement in their equipment. The number of soldiers has decreased, but they are armed with more deadly weapons. On the whole, although differences in the purchasing power of various and fluctuating currencies are hard to estimate, there seems to have been an increase in military expenditures.

The British Government report some reduction in the number of men on the army and navy rolls, as compared with 1913, but Field Marshal Sir William Robertson, speaking before the Chamber of Commerce of Lincoln on November 9, 1927, stated that the Empire was spending £40,000,000 annually for its fighting forces more than before the war. Machines are more expensive than men.

The reduction of the number of men under arms has not been uniform. The defeated countries were forced to give up universal military service and have been limited to small but expensive volunteer armies. Spain and Belgium report a small increase. Statistical difficulties are great in the case of the new countries of eastern Europe; there is probably an increase in some cases, although the burden of military service was heavy under the old empires. Italy in 1914 reported an army of 250,000 and in 1927 one of 246,000.

The only Great Power among the victors that shows a notable reduction is France. The annual contingent in 1913 was 230,000 and for 1928 is 240,000, but the term of service has been cut from three years to one year. This means, as far as standing armies (excluding colonial and overseas troops) are concerned, a reduction to a little over one-third. Against this decrease must be placed the creation of a new volunteer professional organization of about 100,000. This is intended to supply thoroughly trained men for technical services, and an increased corps of "non-coms" and instructors.

Figures presented to the *Chambre des Députés*, during the debate on the new Army Bill, show that, including colonial and colored troops, the ration roll of the French army in 1913 reached 990,000 and that the estimate for 1928 is 523,769. Owing to improved equipment, however, and to the stiffening influence of the larger body of professional soldiers, neither the cost nor the fighting power of the French army has been reduced in a 9-5 ratio.

While statistical difficulties are still great in any study of the relative strength or expense of the world's armies, we know much more about the subject today than before the war and every year

the statistical service of the Disarmament Section of the League improves.

DISCUSSION OF CRITERIA

THE first phase of the disarmament discussion at Geneva had to do with an attempt to find satisfactory criteria for comparing the armaments of the nations on which a system of ratios could be based.

A proposal was introduced by Lord Esher, of the British delegation, to limit land armaments on the basis of the number of men in the standing armies. He presented a proposal the significant part of which created a unit of 30,000 men as the basis of the ratio, and he proposed a scale of ratios which gave one unit to Portugal and six—180,000 men—to France. This proposal received serious adverse criticism. Lord Esher had left out of consideration all reserves, all questions of equipment or of expenditure. He had also left out of consideration colonial armies, which he maintained, without convincing proof, could not be used in a European war. The general conclusion was that Lord Esher's scheme was too simple; it is obvious that a unit of 30,000 men from a country rich enough to equip them with large amounts of the most modern weapons could not be fairly compared with the same number of men from a country which could not afford appropriations for adequate equipment.

A contrary proposal was made that the standard of comparison should be based solely on equipment. It was generally agreed that the most effective parts of the disarmament scheme which had been imposed on Germany were the sections which definitely limited the equipment she was permitted to retain; especially in regard to large units of equipment this criterion is effective. This is obviously true in regard to naval warfare, for it is impracticable to build battleships in secret; but the smaller the unit of equipment, the less satisfactory this standard proves. It is easier to convert a yacht into a torpedo-boat than a passenger ship into a cruiser; it is easier to set limits to big guns than it is to revolvers. The criterion of equipment also has the disadvantage that an agricultural country with no heavy industry capable of producing

munitions is handicapped in comparison with a country industrially prepared for the manufacture of armaments.

Simultaneously there was much discussion of the possibility of limiting military budgets. A resolution was passed by the First Assembly suggesting that the nations agree not to increase their military expenditures, but when this proposal reached the experts its weakness was made obvious. It is much more expensive to maintain a thousand men on the volunteer system than it is where conscription is practiced; furthermore, no two countries make up their budgets in comparable forms. A study of the problem tempts one to the conclusion that all governments take pains to hide their military expenditures under classifications which sound peaceable; to make limitations on the basis of military budgets effective, it would be necessary first of all to agree on a standard form for the budgets of all nations.

Aviation offers a peculiarly difficult problem. When Colonel Lindbergh was given the medal of the National Geographic Society, Mr. McCracken, Assistant Secretary for Aeronautics of the Department of Commerce, in a speech describing the development of civil aviation and appealing for public support, spoke of its great importance to national defense. But civil aviation does not figure in our military budget. Many governments subsidize civil aviation for the express purpose of developing reserves of trained flyers for the military air forces. Many of our state universities and "land grant" colleges have required courses in military science. All over the world, chemists, physicists, and mathematicians are working on military problems, the importance of which was demonstrated during the war, under cover of money appropriated, or endowments made, for "educational purposes."

Although the discussions made it clear that there was no single criterion on which a satisfactory system of ratios could be built, they demonstrated that there was considerable value in each one of these suggestions, and that in all probability any attempt to limit the armaments of the various nations on a system of ratios will require the working out of a complex base, in which the various items of man-power, industrial equipment, budgets, and so forth will be considered and weighed according to the circum-

stances of each country, and adjusted according to the respective indices for the cost of living. The discussions which have taken place at Geneva have thrown light on this problem and will be of value when the conjunction of stars in the political firmament makes progress possible.

THE TREATY OF MUTUAL GUARANTEE

Out of all these discussions in divers committees at Geneva, there has grown a general conviction that armaments are the symptom of a state of mind, that fear of attack is the real disease, that moral disarmament—a sense of security—must precede material disarmament. In *Janus: The Conquest of War*, Professor William McDougall has clearly and concisely presented to American readers the philosophic theory of armaments which tends to prevail at Geneva.

Attention was focused on this problem of security, as the basis of disarmament, by the organization of the "Petite Entente." This new group in southeastern Europe was denounced in many quarters as a return to the pre-war policy of alliances and the charge was freely made that such treaties were in conflict with the Covenant of the League. This produced an illuminating discussion and brought out a weakness in the League of Nations which was less a matter of drafting than of geographical fact. The present frontiers of Czechoslovakia, Yugoslavia, and Rumania had been created by the peace treaties and included territories which had previously been Hungarian, and of all the defeated countries the Hungarians were the least reconciled to their territorial losses. The popular political rallying cry of the day in Hungary is: "No, No, Never," indicating that they will never accept the present status. The political situation was uncertain and there was much talk of revenge and the reconquest of these lost territories. Article X of the Covenant pledged all the member states to the protection of the present frontiers as against external aggression, yet gave little comfort to these three countries which had to consider the possibility of defense against an attack from Hungary. In case the war party won the upper hand at Budapest and began hostili-

ties against Rumania, the obligations of Article X required that such countries as Japan, Norway, and Spain should come to Rumania's assistance. It was infinitely more important for Rumania, in working out her plans for national defense, to know what aid she could expect from her near neighbors, who were close enough to render effective aid immediately. It was this geographical fact which led to the development of regional agreements. Article XXI of the Covenant, "Nothing in this Covenant shall be deemed to affect the validity of international engagements, such as treaties of arbitration or regional understandings, like the Monroe Doctrine, for securing the maintenance of peace," had been incorporated in the hope of meeting American objections that the League might interfere with the Monroe Doctrine. The Petite Entente considered that their regional agreements were justified by this Article.

The T.M.C. gave especial attention to this question of security in its relation to regional agreements and attempted to strengthen the pledge of mutual aid in Article X by expanding the principles of the Petite Entente, so that any nation which felt itself threatened by attack, could, while planning out its own program of national defense, take into account the help which it could rely upon from its neighbors.

The draft treaty drawn up by the T.M.C. was submitted to the governments of the member states for comment and was rejected by the British Government on grounds such as those referred to above. It believed that the more exposed countries should not allow their fears to drive them to alliances which might, even if they were advertised as purely defensive, eventually develop into a network of military commitments too similar to the condition which immediately preceded the last war and to a large extent responsible for it.

THE PROTOCOL FOR THE PACIFIC SETTLEMENT OF INTERNATIONAL DISPUTES, 1924

THE rejection of the Treaty of Mutual Guarantee by the British Government made necessary a new effort to solve the same prob-

lem by other means. The result was the drafting of "the Geneva Protocol" at the Assembly in September, 1924.

A hopeful political situation had developed during the summer of 1924, both in France and in England. The elections had brought parties of the Left into power. In France, Herriot, the new Premier, was a pronounced believer in organized effort to prevent war. The new labor government in England was headed by Ramsay MacDonald, who was even more definitely on record as a friend of peace. But more was involved than the personal convictions of these two statesmen: they knew that their parties had been elevated to power by an electorate which was as wearied with war and the continuing threat of war as they were themselves; they had not only been given an opportunity by the chances of politics to work for an ideal which was dear to them personally, but they were bound by explicit campaign promises, and by the definite mandate of their constituents, to work for peace.

A new element of great importance was brought into the disarmament discussion at the Assembly of 1924—arbitration. In order to make the nations feel more secure, and by so doing to reduce the incentive for swollen armaments, it was necessary to set up some satisfying equivalent for war. The word "arbitration" was used in the Protocol discussions in a much broader sense than that given to it in the technical writings of international lawyers. It was an all-inclusive term for the various methods "for the pacific settlement of international disputes." It implied the use of the Permanent Court of International Justice for juridical decisions and special courts of arbitration for justiciable controversies. It envisaged both *ad hoc* and permanent boards of conciliation, commissions of investigation where there was a misunderstanding of facts, and diplomatic conferences or action by the Council of the League in cases that fell outside of the competence of other institutions. To render war unnecessary it was requisite to create other methods for settling disputes among the nations. "Arbitration" completed the trinity—"Arbitration, Security, and Disarmament."

Another step forward was made at this meeting of the Assembly by the general acceptance of a definition of "aggression."

In this matter important aid was given by an unofficial "American Committee." The basic idea that a nation which refused to submit its controversy to judicial process was guilty of aggression, was not new, but it could not have been accepted until the machinery for judicial process had been set up, and at the juncture when the Assembly was laying plans for a comprehensive system for the pacific settlement of international disputes, the suggestion made by Dr. Shotwell and his American friends came before the international public and was enthusiastically accepted.

The Assembly held that of equal importance to the creation of legal machinery and the definition of "aggression" was the organization of police action against the nation which brought upon itself the ban of outlawry by committing an aggression. To make certain the sense of security which it was hoped would bring about general disarmament, some pledge of common aid to any nation which should be the victim of aggression was necessary. This was the idea so often forcibly expressed by Theodore Roosevelt: "From the international standpoint the essential thing to do is effectively to put the combined power of civilization back of the collective purpose of civilization to secure justice. This can be achieved only by a World League for the peace of righteousness, which would guarantee to enforce by the combined strength of all the nations the decrees of a competent and impartial court against any recalcitrant and offending nation."[1] This idea, which was the central dogma of the old League to Enforce Peace, is what the European nations mean by the word "sanctions"—the effective organization of the pledge of common aid against the outlaw. The draft treaty which was drawn up by the Assembly in 1924 provided for the immediate convocation of a general disarmament conference as soon as the Protocol was ratified.

THE RECEPTION OF THE PROTOCOL

THE Protocol discussion can be summed up as an attempt to define the price of peace. Peace, which had theretofore been in the clouds, was brought down to earth; it was put on the market. The price was high; this was the point of view from which the Protocol

[1] *Works*, Memorial Edition, Vol. XX, Foreword, pp. xxiii-xxiv.

was attacked. Almost no voice questioned the assertion that peace could be had on these terms. The opposition, which developed at once, was on the ground that peace was not worth this price.

No sooner had the draft of the Protocol been published than ardent discussion of it began in all the Foreign Offices of the world, in the press, and on the platform. It became evident that three kinds of opposition were developing.

(a) The most successful duelists were not the ones most interested in suppressing duelling; the weak countries which have no hope of making their cause prevail by force of arms are naturally more inclined to accept the processes of law; the more powerful nations, confident in their own might, have less to fear from international anarchy and are therefore less inclined to pay a high price for peace.

(b) It is also evident that the price at which peace was quoted seemed higher to those countries which are less exposed to the dangers of war than to those in the storm centers. There is a vast difference in the degree of security in the northeastern corner of Europe from that in the Balkans; the countries which have suffered most and fear most are less inclined to find the price of peace excessive than those which are happily more remote from danger.

(c) Opposition also developed from nations which are dissatisfied with the new frontiers created by the war. A new recourse to force seemed to them—or at least to an articulate part of their public—preferable to acceptance of the *status quo*. While to say that the Protocol would have crystallized the present map of the world is of course incorrect, it would have prevented alteration by resort to arms.

A review of the press in the months immediately after the Assembly of 1924 and a list of the newspapers which opposed the Protocol would give a census of the forces within each country, Fascist in Italy, Nationalist in France, Junker in Germany, Tory in England, which are opposed to the development of a reign of law among the nations and the organization of peace.

The kind of opposition suggested above under (a) was typified by events in England. The Labor government fell from power on a different issue and were succeeded by a Conservative ministry.

That this made the ratification of the Protocol by Great Britain less probable was obvious to anyone familiar with political life; it would be almost as difficult for Baldwin to follow in the footsteps of a labor leader like MacDonald as it would have been for Harding to carry out the foreign policy of Wilson. At the December meeting of the Council, which was held in Rome, Chamberlain, the new British Foreign Minister, asked that consideration of the Protocol be postponed until the British Government which had just taken office could have the opportunity for exhaustive study and consultation with the Dominions. While it was stated that this request for postponement did not in any way prejudice the decision which the British Government would reach, it was evident that the new ministry did not regard the proposal with enthusiasm.

The attitude toward the Protocol suggested above under (b) was illustrated by the case of the Latin American states. Their interest in the Protocol was only moral: remote from the storm centers of Europe, they were under no driving compulsion to enter into such agreements; they were favorable to the Protocol but lukewarm.

The attitude suggested above under (c) was illustrated by Italy and Hungary. Fascismo had uttered a super-heated appeal to nationalism. Many of the demands which the Italy of Mussolini makes in the realm of foreign policy could not be realized without a change in the *status quo* which would almost certainly give rise to war. It could not be expected that there would be enthusiasm among the Fascists for any proposal which would make the realization of their aspirations more difficult.

Of all the defeated nations, the Hungarians feel that they have suffered the greatest injustice. Never having given even lip-service to the doctrine of self-determination, they cannot be reconciled to the loss of provinces in which their race is in the minority. They dream of rebuilding their military power and securing by the sword what they consider to be justice.

France was the only one of the strong nations which gave unqualified support to the Protocol. This was partly due to the fact that the government of the Left which had been in power when the

Protocol was drawn up was still in power; it was also due to the fact that France is in the storm center, has frequently experienced invasion and has so recently learned that the fruits of victory are Apples of Sodom that she is willing to pay a high price for peace. As the discussions stirred by the Protocol showed, almost all the other countries of continental Europe sided with France on this problem; the attitude of the new countries of eastern Europe was ably stated by M. Benès at the Council meeting in March, 1925:

> From Finland in the north through the Baltic republics, Poland, Germany, Czecho-Slovakia and Austria, down the valley of the Danube to Constantinople and southern Greece, you have regions where thousands of conflicts may break out, beginning today by the murder of a frontier guard or the desecration of the flag and easily ending tomorrow in a terrible war. Today all these countries are tired of this state of affairs. They long to be at last delivered from this intolerable position. They know that they have many problems that are almost insolvable psychologically through direct negotiations and wish to find methods other than violence and direct action to solve these problems. In general they are small nations of whom M. Briand yesterday spoke so eloquently; they want nothing but peace and security and that is why the Czecho-Slovakian Government, as one of these nations, insisted so urgently upon the idea of arbitration and the policy of the Protocol.

At the same meeting of the Council, March 12, 1925, Mr. Chamberlain read a statement on behalf of the British Government definitely refusing to accept the Protocol. In this important memorandum the British Government raised two objections; the first went to the deep root of the matter: the British Government was unwilling to agree to compulsory arbitration; it was unwilling to undertake to accept the processes of "law" in all disputes. This is the sacrifice of the privileges of power which the Protocol called for from all strong nations; the British Government under the direction of the Conservatives was unwilling to pay this price for peace.

The general problem of arbitration will be considered in another volume of this Survey. Here it is enough to point out that, while the British Government has been willing to go much further

than our own in accepting general arbitration obligations, it was not willing to go to the limit required by the Protocol. The British memorandum referred to a statement previously made on behalf of the British Government in regard to the compulsory jurisdiction of the Permanent Court of International Justice at The Hague; the British Government had not been willing to sign the optional clause recognizing the compulsory jurisdiction of the court and, as is interesting to note in view of points to be discussed later, it explained this refusal on the ground that the laws of the sea were so unsatisfactory that the British Government could not foresee the action which such a court might take in questions which might involve its interest as a great maritime and naval nation.

The British memorandum also objected to the amount of space which had been given in the Protocol to the organization of sanctions to be brought into operation against an aggressor nation. This is a point of view familiar in our own country, as many Americans desire to find some way to outlaw war without accepting any responsibilities for police action against the outlaw. But the British memorandum did not go as far in this direction as some of our advocates of verbal outlawry; it did not so much object to the idea of sanctions as point out that it was unwise to elaborate the machinery for the application of sanctions unless there were reason to believe that they could be applied in practice. The memorandum pointed out forcibly that in the absence of the United States from the League there was grave doubt as to whether the economic sanctions provided for in the Protocol could be put into effective practice: there was no assurance that the American Government would recognize a blockade against an outlaw, and if it should insist on its traditional right as a neutral to trade with both sides in the controversy, any attempt to enforce the sanctions of the Protocol would put on the British Empire the responsibility for cutting maritime communications between the outlaw nation and the economic assistance which it could secure in the United States. This involved a risk of conflict with the United States which the British Government did not care to assume. Unless the United States would promise not to assist the highwayman, the British Government did not want a job on the police force.

After reading this memorandum Mr. Chamberlain added the following statement which has been the subject of considerable controversy:

> His Majesty's Government have found it impossible, in the time at their disposal, to confer personally with the representatives of the Dominions and of India, who are also members of the League, but we have been in telegraphic communication with them, from which it appears that the governments of the Dominion of Canada, of the Commonwealth of Australia, of New Zealand, of the Union of South Africa, and of India, are also unable to accept the Protocol. Their views will be made known in such a manner as they may think fit either by a communication to the Secretariat, or to the Assembly, or otherwise.
>
> I am not yet in possession of the views of the Irish Free State.

This statement illustrates one of the problems involved in the transformation of the old British Empire into the British Commonwealth of Nations. The new British Government had, in fact, invited the Dominions to send delegates to an imperial conference in London to discuss the Protocol and they had with one accord made excuses for reasons which had nothing to do with the Protocol. The Dominions had an opportunity to make known their views in the matter at the Assembly in the following September. The only one of the Dominions to take part in the discussions of the Protocol at that time was Canada; her delegate stated that while the government of Ottawa found certain objections in the Protocol as drafted, it was prepared to go considerably further toward compulsory arbitration than the mother country. The feeling that the British Foreign Minister had not adequately expressed the attitude of the Dominions on the Protocol was not an inconsiderable element in their decision to secure direct representation on the Council; the Irish Free State, in fact, was ready to accept the Protocol and was with difficulty persuaded not to do so.

In the latter part of the British memorandum the statement was made that while the British Government could not accept the Protocol as a whole it was not content with such a negative statement, and, referring indirectly to the proposals for a Rhine Security Pact, which had been made by Germany in February, said

that it would be willing to consider such obligations in a smaller and more sharply defined area. The German proposal in the form in which it had originally been made was plainly unacceptable to the French. It appeared to be a German offer to make peace with France, and for Germany to compensate herself for her western losses by frontier changes in the east at the expense of France's allies, Poland and Czechoslovakia. Even with the formal statement of the British Government that it was prepared to support this proposal, there was no general hope of success. But forces, which were pushing toward peace, were stronger than appeared on the surface.

The Sixth Assembly of the League in September, 1925, took a step of considerable importance in recommending the creation of a preparatory commission to deal with the technical questions which would be involved in any general disarmament conference. A provision was inserted in the Protocol that in the event of unanimous ratification a general disarmament conference should follow almost immediately; this had been rendered impossible by the action of the British Government; but, as the French delegation pointed out, if a general disarmament conference should meet, its work would be greatly prolonged by the necessity of studying purely technical problems. That the political situation of Europe was not ripe for the immediate calling of the conference was evident, but it was hoped that sooner or later this would be possible, and, in the meantime, it would be possible to proceed with these technical studies so that, when at last a political conference convened, time would not have to be wasted on these details. The discussions of the Sixth Assembly showed clearly that the proposed preparatory commission was not to be a meeting of political plenipotentiaries who would have the duty to sign a treaty and commit their governments to any policies; on the contrary, it was to be a conference of experts who, their minds free from political considerations, could study the technical aspects of disarmament and clear the ground on which any general treaty should be based.

In November one of the most remarkable and important conferences since the war was held in the little Swiss town of Locarno. Even those who were most hopeful of some success were amazed at

the speed with which the conference accomplished its purposes. The important achievement, from the point of view of disarmament, was a real increase in the sense of security in Europe; the fall of the armament thermometer in France—the reduction of military service from three years to one—shows to what extent the fever was reduced. Germany and France agreed definitely not to engage in war on their common frontier and to refer to pacific settlement any controversy of any nature which might arise between them. England, Italy, and Belgium joined in the guarantee of this treaty, pledging their whole resources against either of the two nations which might break the covenant. Of almost equal importance were the treaties in regard to eastern Europe, although they did not go quite so far and were guaranteed only by France. In effect Germany agreed not to attempt to alter her eastern frontiers by force of arms. The relaxation of European tension which followed the ratification of these treaties was remarkable.

It is interesting to note that while the original proposal of the German Government in February had borne little resemblance to the Protocol of Geneva, the negotiations throughout the following summer had constantly come closer to it. The Locarno accords borrowed heavily from that document not only in spirit but also in phraseology; what the Fifth Assembly had attempted to do for all the world, the Powers which gathered at Locarno did for a definite and limited area. Indeed, the arguments which the British Government had raised against the Protocol were almost equally cogent against the Locarno accords. While it is true that the British Government did not agree to compulsory arbitration at Locarno, the conference there, under the presidency of Mr. Chamberlain, prescribed that medicine to France and Germany. Whether the British Government can refuse the same medicine is doubtful. The question of sanctions is the same; the danger of a conflict with the United States over the question of neutral trading rights is identical in the two cases; and while the British Government felt that it could not accept the Protocol because it had not secured the agreement of the Dominions, it signed and ratified the Locarno accords without even consulting the Dominions.

CHAPTER THREE

WASHINGTON

THE AMERICAN NAVAL SITUATION

AFTER the Civil War, our navy dropped into neglect and obscurity. The decades which followed are the subject of a section in *A Short History of the United States Navy*, by Clark, Stevens, Alden, and Krafft of the faculty of the U.S. Naval Academy, entitled "The Period of Naval Decay": ". . . for twenty years the United States had not a single armored ship. During the administration of President Hayes our navy was inferior to that of any European nation; even Chile's two iron-clads, if properly handled, would have been more than a match for all our ships combined. The year 1881, when Garfield succeeded to the presidency, marks the lowest point to which the navy has ever sunk." The fleet which President Garfield reviewed comprised "the best dozen vessels in the navy at that time; they were all built of wood, and included not only the side-wheel steamer *Powhatan*, a relic of the forties, but also the ancient frigate *Constitution!*"

The Act of August 5, 1882, called for "two steam cruising vessels of war . . . steel . . . said vessels to be provided with full sail power." But Congress neglected to vote any appropriations. The Act of March 3, 1883, provided for the first of "the White Squadron," the *Chicago*, the *Boston*, the *Atlanta*, and the *Dolphin*. The *Charleston* in 1885 was our first warship to abandon sail power and to use only military masts. In 1890 Congress authorized the first battleships—the *Indiana*, the *Massachusetts*, and the *Oregon*. Professor Alfred Dennis's *Adventures in American Diplomacy*, covering the years from 1896 to 1906, describes the problems of foreign policy which caused succeeding administrations to give increasing attention to the navy. The Spanish War in 1898 focused public interest on the navy and made possible the relatively large appropriations for its upbuilding. Yet problems on land were the principal preoccupation of the American people in those days, and it was not until we began to feel the vexations of the World War that public opinion turned any large part of its

attention to the problems of the sea. These vexations were very real and of two kinds—material and moral.

First of all, the realization was forced on us with startling vividness that much of our overseas commerce was being carried in foreign bottoms. Almost all the British merchant marine was mobilized for war purposes, and neutral ships were laid up in harbor or could be chartered only at exorbitant rates. At that time we were exporting about one-tenth of our production of goods; 5 per cent went to European markets and the other 5 per cent to Latin America and the Orient. This one-tenth touched vital American interests, primarily agricultural in nature. Before the war in Europe was a week old, this export trade was completely disorganized. The first shock to our economic structure was not due to the blockade enterprises of the belligerents, and only indirectly to our lack of warships, but mainly to the fact that those common carriers on which we had relied had gone on strike, and that we had no mercantile marine of our own to carry our trade.

This was the first phase. When efforts were made to straighten out this disorder, to persuade neutral ships to carry our goods, or by purchase to secure our own ships, we came directly into conflict with the belligerents who, as far as it was in their power and by every means at their disposal, sought to force us to trade with them and boycott their enemies.

Keen analysis is necessary to understand the events of those days. As far as the British were concerned, most of the American resentment focused on the Admiralty; but for many of the vexations we suffered, the Admiralty were not to blame. It was not their fault that our merchant marine was inadequate; we had no right to protest when they mobilized their merchantmen for war purposes; and it is still the custom to give the Admiralty more credit for the blockade than they deserved—we and their enemies suffered more from the civilian Enemy Trading Act and Black List.

Never since the days of the Napoleonic era had we been ordered about so unceremoniously; never had our diplomatic correspondence been so cavalierly treated. It appeared that "unarmed neu-

trality" had no rights that any belligerents held worth respect. This was more than a material loss, it touched the nerve complex that has to do with self-respect. It made a deeper impression at the time and left a more durable memory.

In the absence of any explicit agreements and of sanctions against lawlessness, international law is at the mercy of national policy. The British, during their long period of neutrality from the fall of Napoleon to the World War, had established a definite theory of their rights as neutrals, and most of our protests were based on their violation of their own precedents, as in the "bunker coal" dispute.

With this background of extreme irritation at the high-handed disregard by the belligerents of what we considered our rights the preparedness movement got under way. At first it was frowned on by the administration, but at last Wilson became reluctantly convinced that arguments unsupported by force were futile; in his St. Louis speech of February 3, 1916, the President came out for "incomparably the most adequate[1] navy in the world," and in August of that year, Congress voted the largest naval appropriations in its history.

Apparently the General Board had not had in mind, when they were planning the 1916 program, the eventuality of a war against Germany. For, as soon as we went into the war in association with the Allies, work on the 1916 program was stopped and our shipbuilding facilities were strained to the utmost on work which had some relation to the war going on.

What was needed in that crisis were food ships to risk the submarine blockade and small swift craft to fight submarines. The larger units of our navy joined the British fleet in the North Sea, but were not called upon to go into action; our smaller craft co-operated effectively in mine-laying, hunting U-boats, and in escorting our convoys.

After the armistice the cordial coöperation that had marked

[1] The term "adequate" requires an object. Neither in Wilson's use of the word nor in Mr. Coolidge's recent use of the word "needful" is there a suggestion of the national purpose to which the navy is to be adequate or for which it is needed. The use of the euphemism "adequate" disarms the criticism that attaches to the demand for a large navy.

the relations between the British and American navies came to an abrupt end. The British, who had welcomed our shipbuilding activity during the war, could not, after the surrender of the German navy, regard the maintenance of a large American mercantile marine and navy with the same enthusiasm. If the American announcement of the plan for an "incomparable" navy was boastful, the tactlessness with which certain British sea lords advised our naval authorities to give it up was no more likely to increase Anglo-American good will among the experts. Foolish threats were exchanged; while the political heads of the Allied and Associated Powers were preoccupied with trying to make peace with Germany, the English and American admirals pounded the table in a typical experts' quarrel.

This seems the most plausible explanation of the fact that the American 1916 program, which had been shelved during the war, was revived as soon as Germany had been defeated. Between 1918 and 1921, the keels authorized by the 1916 program were laid. The General Board of the navy asked for more ships and in their report of September 24, 1920, advocated the building of "a navy equal to the most powerful maintained by any other nation in the world." There is a certain disingenuousness in this plea, for, as Mr. Buell notes in *The Washington Conference:*

> The mere equality of the British and American fleets would probably mean the loss of British sea supremacy because the British Empire is scattered throughout the whole world. The American navy has to defend, with a few insignificant island possessions, only two long easily defensible coast lines, and is able to strike as a unit, whereas the British fleet ordinarily must be divided into different squadrons.

It is impossible to make any definite statement of what would have happened in the naval competition of America, Britain, and Japan, if the Washington Conference had not taken place.

By 1921 the British had not yet taken up the challenge which our revival of the 1916 program had thrown down. They had not started to build any capital ships since the war. Weeding out the old-fashioned ships, they were spending considerably less on their

navy than before the war. Although far ahead of us in 1921 in capital ships, they were not building new ones, and, according to some estimates, we should have drawn up to them, perhaps surpassed them, by 1924; we should certainly have overtaken them in battleships in a few years unless they had begun to build feverishly.

The situation in Japan was different. To them our guns seemed pointed in their direction. Their naval appropriations went up from $85,000,000 in 1917 to $245,000,000 in 1921. This was one-third of their budget. And if the "Eight-Eight Program" had been carried out till 1927, the annual expenditure of Japan would have reached an estimate of $400,000,000. At this rate, if we had wanted to keep anything like a 5-3 ratio with Japan, we should have had to expand our building program considerably.

THE INTERNATIONAL POLITICAL SITUATION

In 1921, on the eve of the Washington Conference, the expression was current in this country and abroad: "The next war will be in the Pacific." The storm center seemed to many to have shifted from war-torn and war-weary Europe to the broad ocean which forms the frontier between the Americas and Asia. Real causes of dispute were involved and the drift seemed toward their aggravation.

Two questions, immigration and the "Open Door," were a source of chronic irritation between the United States and Japan. These two irritations were extremely aggravating to the island kingdom. Our policy of excluding certain races hurt the Japanese in their pride—"an emotional area"; the policy of the "Open Door" in China impeded their economic aspirations—"a pocket-book area."

A *modus vivendi* in regard to immigration had been reached with the Japanese under the Roosevelt administration by the Root-Takahira Agreement, popularly called "The Gentlemen's Agreement." Never having been published, nor reduced to a concise document, it was in fact a thick *dossier* of correspondence. It was later summarized in a manner which was acceptable to

the Department of State in a letter from Ambassador Hanihara to Secretary Hughes. But this "Gentlemen's Agreement" was merely a stop-gap; never having received the sanction of the Senate, it had no legal validity. Toward the end of the Wilson administration, Roland S. Morris, our ambassador at Tokio, was called home to discuss the bases of a more stable solution of the problem with Baron Shidehara, the Japanese ambassador at Washington. The Japanese, not fully appreciating the constitutional instability of a "Gentlemen's Agreement," preferred some such informal arrangement to any formal treaty in which they would publicly accept a status in any way different from that of other races. "Racial equality," while probably meaning relatively little to the more realistic ruling class of Japan, had become a slogan of public opinion which they could not ignore. Some progress had been made toward finding a formula which was acceptable to both governments and which might have served as the base of a treaty to be submitted to the Senate for ratification, when the Morris-Shidehara conversations were interrupted by the change of administration. Whether or not the matter could have been finally and amicably settled in this manner would, of course, have depended on the action of the Senate. No effort was made by the new administration to continue negotiations along this line; the failure to do so must have seemed to the Japanese Government to indicate a new policy, possibly less friendly.

The "Open Door" policy did not affect the emotions of the Japanese people to the same extent as immigration, but it more nearly touched the ambitions of the ruling class. The need of Japan for free access to raw materials and food, not to be found on her cramped island home, is as imperative as that of England. Most of the needed raw materials are procurable on the mainland of Asia in territory under either Russian or Chinese sovereignty. Japan's enterprise on the continent, political and economic, had centered in Korea and in Manchuria, outside the Great Wall of China, where her victorious campaign against Russia had been fought.

When John Hay announced the policy of the "Open Door," it was directed primarily against the colonizing ambitions of Euro-

pean Powers. It included Japan, of course, but was not directed specifically against her, yet in the course of time it had become more and more a matter of controversy with the Japanese. A large part of the pre-Washington Conference correspondence in the Department of State, which might be filed under the heading "Open Door," had to do with alleged attempts of Japan to close the door in Manchuria on our trade.

When the war was over, attention in Europe and America was called to what appeared to be the great expansion of Japanese ambitions in Asia. More of the province of Shantung had been occupied than was necessitated by military operations against Germany. At the Peace Conference the Chinese delegates protested vigorously against the Twenty-one Demands, which Japan had presented at Peking in 1915 in the form of an ultimatum, and which China had in part accepted. Japan had greatly increased her garrisons in Manchuria and had maintained her expeditionary force in Siberia long after the date justified by the agreement with the United States on joint intervention. Before the end of the Wilson administration notes had been exchanged on this subject between Washington and Tokio, which, though eventually successful, were so sharp in tone that the lack of cordiality between the two governments had been published. It seemed to the Japanese that the American Government was consistently opposing their legitimate aspirations on the mainland of Asia and was increasing the striking power of our navy at great speed.

The revival of the controversy over sea law during our period of neutrality, the refusal of the British statesmen at the Peace Conference to discuss the "freedom of the seas" and the attitude of some of their admirals toward our naval program—these factors, added to increasing uneasiness over the situation in the Far East, had given American opinion new reasons for scrutinizing the Anglo-Japanese Alliance.

This document had been revised at one of its renewals by the British in such a way as to free them from any obligation to come to the assistance of Japan in case of a war with the United States; this should have been sufficient to relieve us of anxiety on this score as long as our relations with the British Empire were cordial, but

if the naval controversy with Great Britain should grow in bitterness, the understanding between London and Tokio would become of more serious import.

That the two things were closely interlocked was obvious. A "forward" naval policy on our part, menacing at the same time to Great Britain and Japan, was the surest method of revitalizing the Anglo-Japanese Alliance and of putting teeth into it.

A cross-current of great importance set in at this point to our advantage. The British Dominions in the Pacific, which were continually exerting more and more influence in the foreign relations of the Empire, were definitely opposed to the Anglo-Japanese Alliance. This was a striking illustration of the not infrequent circumstances in which the obvious interests of some of the Dominions are much closer to our own than to those of the mother country. The exclusion of oriental immigration is as burning a question in Canada and Australia as it is in California. Australia and New Zealand cannot imagine any source of attack except Japan; their immigration policy is in some ways more rigorous than our own, and has created intense feeling at Tokio. At this stage Mr. Hughes, the Premier of Australia, made a public statement in which he said that the people of Australia welcomed the news of every battleship that was laid down in the shipyards of the United States. At a time when the British Admiralty regarded the growth of our navy as a possible danger, British subjects in the Pacific dominions felt that every accession to American naval power was an added guarantee of their safety in the face of "the Oriental menace."

THE DOMESTIC POLITICAL SITUATION

The administration which was just beginning under President Harding, in framing its plans for the Washington Conference, had to consider not only questions of international policy but also the domestic political situation.

Harding, during the electoral campaign, while stating that he would not continue the foreign policy of Wilson, had promised the people that he would not be second to Wilson in his desire for peace

and that it would be his purpose to discover practicable ways to serve that cause.

The circumstances of the election of 1920 made it possible for the extreme advocates of isolation to persuade the new administration that the overwhelming victory of the Republican party was an endorsement of their anti-League doctrine. President Harding was therefore in an embarrassingly negative position. Forbidden to do certain things by his friends in the Senate and by the position of his party, stated in the Republican platform of 1920, it was difficult to find any positive alternative action.

At the same time popular sentiment in the United States was insistent that something should be done to lay the menace of new wars. The economic structure of the country had been dislocated. It would have been hard in the early days of the Harding administration to find anyone in America who believed the popular European legend that we had become rich through the war. We were faced by the most severe problem of unemployment in this century; an economic crisis had disturbed our industry profoundly. Even among those who were not especially interested in the problem of peace, there was resentment against the financial waste of building up a tremendous navy after victory. The economic argument in favor of stopping competitive armaments was strong.

Even more vocal was the agitation of those definitely interested in the cause of peace. Besides the normal criticism from the Democratic party, there were many persons of the Republican party who had taken seriously the manifesto of the thirty-one and who believed that the inclusion of Mr. Hughes and Mr. Hoover in the new cabinet meant that the administration would follow an active policy of peace, which would be similar in purpose to that of the preceding administration even if different in its forms. Such non-partisan organizations as the Federal Council of the Churches of Christ in America and the various women's organizations and the American Federation of Labor were carrying on an active agitation for disarmament.

The hand of the administration was forced by a remarkable uprising of public opinion. In December, 1920, Senator Borah

introduced a joint resolution, later section 9 of the Naval Supply Bill, which was approved on July 12, 1921, urging the President to invite Great Britain and Japan to a conference for the purpose "of promptly entering into an understanding or agreement by which the naval expenditures" of the three Powers should be reduced. The popular response to this proposal was immediate and emphatic, and newspapers throughout the country fell into line behind the Borah resolution. Editorial endorsement was enthusiastic everywhere. All sorts of organizations from chambers of commerce to mass meetings of citizens passed resolutions in favor of the reduction of armaments. A monster petition was organized in St. Louis, reminiscent of the enthusiasm of the war days and the methods of the various patriotic "drives": a great dial was set up in a public square, and a clock hand moved forward at every thousand signatures; as every ten thousand names were added a special courier was sent to Washington. The intensity of public interest was registered by the unprecedented vote in Congress. The Borah resolution passed the Senate on May 26, 1921, by 74 to 0; it passed the House on June 29 by 330 to 4.

Under such emphatic urging the administration proceeded to call a conference, and it was decided to take up questions concerning the Pacific and Far East, in the hope of diminishing the danger of war by dealing with some of its more specific causes. This policy of treating the problem of armaments as part of a larger complex of political relationships was in line with the theory of armaments that was developing at Geneva, and in marked contrast to that later adopted by the Coolidge administration in 1927, when the limitation of naval armaments was considered as a technical problem.

THE CONFERENCE

THE formal invitations to the Washington Conference were issued on August 11, 1921, and were accepted promptly. As far as the Great Powers were concerned, preliminary and informal communications had given our government assurance that the invitations would be welcomed.

Five Powers were directly interested in the naval question, the British Empire, Japan, France, Italy, and ourselves. To this number had been added, as Powers interested in Far Eastern questions, Belgium, China, Holland, and Portugal. Russia was not invited because the United States has not recognized her existing government.

On armistice day there were elaborate ceremonies at the grave of the unknown soldier in which the delegates participated. The next morning the conference was opened by President Harding in the Memorial Hall of the Daughters of the American Revolution. After a short speech of welcome from the President, Mr. Hughes, elected chairman of the conference, made a proposal for scrapping battleships whose concreteness and sweeping character startled the world. No other conference on the limitation of armaments had ever opened with so ringing a challenge. The most hopeful had expected that he might propose to stop new building, but in fact he proposed clearly defined reduction—the scrapping of existing ships and the limitation of battleship strength to a definite ratio. His position was so strong, American naval supremacy was so inevitable if his proposal should be rejected, that his program was at once accepted in principle.

The attention of the public was focused on the battleship problem by this opening speech; few people realized at the time the immense amount of negotiation which occupied the delegates on other subjects. The official minutes of the conference, published some months after the adjournment, tell only part of the story. There were seven plenary sessions of the conference (November 12, 15, 21, December 10, 1921, February 1, 4, 6, 1922); the Committee on the Limitation of Armaments held twenty-one sessions, and the Committee on Far Eastern Questions held thirty-one. This represents what might be called the "official" work of the conference; there is no record of the number of meetings required to arrange for and draft the Four Power Pacific Pact, which was substituted for the Anglo-Japanese Alliance, nor do the minutes give any details of the negotiations leading up to the Sino-Japanese accord in regard to Shantung.

Inevitably the "official records" of such conferences are the

barest of bones; the student who wishes to clothe them with flesh must turn to other sources. Most difficult is it to reconstruct the play of personality; of perhaps greatest importance, although most difficult to measure, was the impression which Mr. Hughes succeeded in creating, that the United States desired to cultivate friendly relations with her neighbors.

The situation that arose in the Senate as a result of the negotiations of this group of treaties was interesting. There was, of course, opposition to the Hughes policy. Elements in public opinion which are chronically hostile either to the British Empire or Japan were loud in their denunciation of what they described as "the surrender." Men whose lives had been spent in the development of the navy inevitably regretted the scrapping of ships already launched or near completion. Men who had long been vainly urging Congress to fortify our Pacific islands cried out against the agreement in regard to naval bases, the voluntary relinquishment of their dreams of a Far Eastern Gibraltar. But public opinion was so overwhelmingly in favor of the program that there was never serious doubt that the necessary two-thirds vote in the Senate would be secured.

In fact, it would have been easily possible to secure an almost unanimous vote, but, according to Senator Lodge, this was not good strategy. Senator Lodge wished the conference to stand as a Republican success in the sharpest possible contrast to the Democratic failure under Wilson; he needed a few Democratic votes to make up the necessary two-thirds majority, but he wished to prevent the party from uniting in support of the treaties. It was the kind of parliamentary manoeuvering at which Lodge was a past master; whenever there was a menace that too many votes might come from the Democratic side, he was able to let fly a barbed arrow that drove the unwelcome support back to the opposition. With an experienced astuteness Senator Lodge finally secured the ratification of the Washington treaties by the narrow margin he desired; public approval of the results of the conference was much more general than the Senate vote would indicate.

THE RESULTS OF THE CONFERENCE

To attempt at so early a date any definitive evaluation of such a conference as that which was called in Washington in 1921 is impossible; only the passage of time can give a proper perspective, but certain aspects of the conference deserve comment, as it is important to watch their effect on the development of American foreign policy.

There was a real limitation of competitive building and a sweeping reduction of tonnage in the battleship category. Limitations were set on the size and number of aircraft carriers, and the maximum size and caliber of guns were fixed for cruisers. Many have found it easy to belittle these results, but most of the criticisms should have been directed to the overenthusiastic assertions made; the general public believed that a complete agreement had been reached with the British on our interpretation of "equality" and that all danger of naval competition had been eliminated. Nothing in the treaties negotiated at Washington, nor in the published minutes of the conference, warranted such assertions. What was accomplished was definite and satisfactory; if the conference had not met, the expensive competition in capital ships would have continued.

The fact must not be forgotten that for the first time in history it proved possible to arrive at an agreement on ratios for the limitation and reduction of armaments among competing nations. The conference method is receiving great attention at Geneva, but no other single conference has produced as many tangible results in the campaign against excessive armaments as those which, owing to a fortunate combination of political circumstances, were attained at Washington.

Much more was accomplished at this conference than the direct limitation of armaments. The discussions in regard to the questions of the Pacific were not followed as closely by the general public as those about "scrapping warships," but to diplomatic opinion they seemed more important, and the amicable ending of the Anglo-Japanese Alliance and the substitution for it of the Four Power Pacific Pact excited the most interest in the

chancelleries. The old alliance had been a promise to coöperate in war; the Four Power Pact was a pledge to coöperate for the preservation of peace. While this treaty did not go so far in its commitment and was not nearly so explicit as some of the security pacts, such as those of Locarno, which have been negotiated in Europe, it was of the same nature, and by increasing the sense of security in the Pacific, profoundly altered the strategical problems in that area and cleared the way for a reduction of naval forces.

The government of Japan was deeply interested in Article XIX of the treaty, "limiting naval armaments"—in the opinion of some authorities, more interested than in any other part of the negotiations. This article, providing for the maintenance of the status "with regard to fortifications and naval bases" in the Pacific, was of greater strategical importance than was generally realized in America. Such fortifications and naval bases as we had in the Pacific were, in their condition in 1921, of little use to us and no menace to Japan. There was a steady agitation in favor of developing these naval bases; Congress was asked at every session to appropriate money to turn Guam or some other island of the Pacific into "a Gibraltar of the Far East." Congress had refused to vote the appropriations, but the possibility remained a potential menace in Japanese eyes. A somewhat comparable situation would arise in the United States if public agitation in England were carried on in favor of turning the Bermudas into "the Gibraltar of the New World." The agreement of our government definitely to renounce the development of these far eastern naval bases seemed a demonstration to Japanese eyes that we were harboring no plans of aggression against them. It won their good will and made possible the Four Power Security Pact and the "scrapping" of battleships.

Of almost equal importance in relieving the tension over far eastern questions was the successful negotiation at Washington of the Sino-Japanese agreement in regard to Shantung. The complicated details of this matter will be part of the setting for a treatment of far eastern problems in another volume of the Survey. The Shantung question affected the United States and the problem of naval limitations through its relation to the principle of

the "Open Door." The Chinese maintained, both at the Peace Conference and at the Washington Conference, that the presence of the Japanese military forces in Shantung was a violation of their territorial integrity and of the "Open Door" doctrine, and called upon us either to admit that we abandoned this doctrine or to enforce it against the Japanese. Fortunately Mr. Hughes was able to bring the two parties together in a separate negotiation during the conference; their agreement saved us from the dilemma which the more bellicose Chinese were trying to force upon us.

The complicated negotiations which led to the two nine Power treaties and half a score of resolutions in regard to Chinese affairs, while momentarily relieving the tension in the Far East and offering some hope of more permanent adjustments, did not work out as well as was expected. The promise of aid to China in regard to the Chinese tariff and the examination of the extraterritorial *régime* was not kept on scheduled time, partly due to postponement on the part of the signatory Powers, partly to the increasing chaos in China.

Another point that deserves attention was the beginning of a misunderstanding with France, largely due to French misconception of the situation, which has had a not inconsiderable effect on the later development of the movement for the limitation of armaments. It appears from comment in their press, from speeches made in their Chamber, from the actions of their delegates at Washington, that their government had felt that an armed struggle for control of the Pacific was imminent, that the talk of naval disarmament had little reality and that the real purpose of the United States in calling this conference was to marshal the white world for an inevitable conflict with the yellow races. The French therefore expected to obtain large compensations in return for their support against Japan. The only compensation they thought adequate for disturbing their friendly relations with Japan was acceptance by the new administration of the security pact signed by Wilson in Paris by which Great Britain and the United States pledged their support to France in case of an unprovoked aggression by Germany. They were disillusioned and perhaps wounded in their pride to find that the

American Government was not seeking their support against Japan. The French delegation failed to present their position to the American people as effectively as they might have done; the public statement made by M. Briand in a public session of the conference was addressed primarily to his political opponents at home and had the appearance of definitely rejecting any discussion of the reduction of armaments on land. This impression was not overcome by the later publication of the minutes of the private sessions, which show that the French would have been willing to discuss the reduction of their land forces if the British and American governments had been willing to share with them the responsibility of preserving the peace in Europe.

There was, however, little disposition on the part of the American delegation to try to understand the French position or to take their problems seriously; from the American point of view the important aspect of the conference was our relations with Britain and Japan. Mr. Hughes felt no urgent need for French coöperation except in the Four Power Pacific Pact; this was first proposed by the British and the Japanese as a three Power arrangement, but Mr. Hughes did not wish to be placed in such a triangle and insisted on broadening the agreement to include France. This appears to have been the only point on which Mr. Hughes expected to need French assistance.

If the French failed to understand the spirit of conciliation in which we wished to approach the problems of the naval balance with Great Britain and Japan and the questions of the Far East, the American delegation and expert naval advisers equally failed to appreciate the French attitude toward the relation between land and sea armaments and their interests in the Mediterranean. The French position made it impossible to extend the ratios which were accepted for "capital ships" to "cruisers" and other "auxiliary craft." This was not only a disappointment to our delegation, but also a surprise. That this disappointment should have been reflected in the press in bitter attacks on French "militarism" is perhaps not unnatural, but that it should have appeared in the tone of the official *communiqués* from the secretariat of the conference was painful to French susceptibilities.

Unfortunately, the French, largely owing to their failure to understand the psychology of the situation, and partly owing to the concentration of the American Government on problems of little interest to them, felt themselves slighted and their legitimate interests ignored, and this misunderstanding has made the French reluctant to accept any suggestion from the American Government of a renewal of negotiations on the basis of the Washington Conference; the circumstance is to be remembered in connection with the French reception of the later proposal for a naval conference at Geneva in 1927.

To sum up: though the Washington Conference did not do all that was asserted at the time, though it did not put a definite end to competition in naval armaments, though it did not "settle" the affairs of China, it did arrive at a limitation and a considerable reduction in certain categories of warships; it had a more definite success in this field than any other attempt; it resulted in sweeping readjustments of the political alignments in the Pacific area; it freed the United States from an auto-intoxication of apprehension of the Anglo-Japanese Alliance from which she had long suffered on the Pacific coast; it relieved the Japanese of apprehension about American naval bases in their neighborhood, and so greatly reduced the tension in that part of the world that it no longer was the fashion to say: "the next war will be in the Pacific." Only when judged from the standard of the too exuberant assertions which were made at the time can it be said to have in any way failed; judged fairly, from the basis of other similar attempts, it was a notable success.

OTHER ATTEMPTS AT DISARMAMENT

THE success of the Washington Conference on the Limitation of Naval Armaments was so impressive that other efforts were made more or less on its model.

During 1922 the Soviet Government issued an invitation to its neighbors, Poland, Finland, Esthonia, Latvia, and Lithuania, to a conference at Moscow in December. Although this conference was a complete failure, owing to the intense political suspicion with which these border states regarded their great

neighbor, it developed some points of world interest. The elaborate plan presented to the conference by the Russian Government dealt only with land armaments and only on the base of their peace-time establishment; there was no discussion of the political problems involved in security. The Russian proposal was simple and concrete: the existing standing armies, which varied from 800,000 in Russia to 16,000 in Esthonia, were to be reduced to one-quarter of these figures; it was further proposed that the signatory Powers should all agree upon a fixed "rate of expenditures for each man under arms." The Moscow conference broke down nominally because of the difference of opinion in regard to the wisdom of excluding naval armaments, the refusal of the Russians to discuss the problem of armament production, and the arbitrary character of the suggested budget limitations; the real reason was mutual distrust.

On the invitation of the American Government, a conference of the five Central American states met at Washington on December 4, 1922, and continued in session until February 7, 1923. Among the items on its agenda was the problem of armaments. This conference was highly successful, and while the problems faced were relatively simple, it is interesting to note that the procedure in regard to the discussion of armaments was of the kind which has been advocated in the development of the disarmament movement at Geneva and which proved successful at Washington. The matter of disarmament was considered in close connection with its political background. More than ten separate agreements, ranging from a "General Treaty of Peace and Amity" to a convention "for the unification of protective laws for workers and laborers" were drafted and signed. The disarmament convention was "general" in the sense that it treated in one document all the aspects of armament, land, sea, and air, and the traffic in arms. This was a treaty of limitation, not of reduction of armaments. A definite number was set for the land forces, ranging from 5,200 men for Guatemala to 2,000 for Costa Rica. The five republics agreed not to have any ships of war except coast guard vessels, to limit their air forces to ten military planes, and to renounce any use of poison gas or other as-

phyxiating substance. This was a limitation of armament forces at a low level. It did not call for any notable reduction of the existing armed forces of the republics, as the limits set were, in some cases at least, somewhat higher than the customary Central American armies. There is no armament problem facing the American republics; there are isolated cases of armament rivalry between different groups, but the danger of serious competition could better be met by a series of regional agreements than by any general treaty.

In 1924, the League of Nations summoned a conference at Rome in an effort to secure "the extension to the rest of the world of the principles of the Washington Naval Conference." This effort failed completely for two distinct reasons: first, it was a meeting of experts rather than a diplomatic conference, and the delegates had no authority to consider the political questions which are inevitably involved in the discussion of armaments; secondly, success was made impossible by the demand of the Russian, Admiral Behrens, who, although the Russian navy at that time possessed hardly a single seaworthy warship, claimed for Russia the rank of a Great Power on sea as well as on land, and suggested that Russia should have a ratio of sea power equal to that of Great Britain or of the United States.

Before President Coolidge announced to Congress in 1927 that he had proposed a conference at Geneva, no statement had been made by the executive department of the American Government to indicate any formal efforts to persuade the signatories of the Washington treaty to meet again to consider extending its principles to other categories of warships, although many examples could be given to show that the government had felt that progress might be made along these lines. Some of the naval appropriations bills in Congress, for instance, carried explicit bids for a new conference and further reduction. The Department of State has kept its own counsel in this matter.

From time to time since the Washington Conference, there have been outbursts of discussion in the European press, plainly based on the assumption that the American Government had made the suggestion through diplomatic channels that it would be glad to

summon a second Washington conference to extend to the categories of ships not covered by the first conference the principles which had been there accepted. A review of the European press at this time when "a second Washington conference" was under discussion shows that any such invitation would have met with considerable reserve, if not frank hostility; and this for several reasons:

(a) All of the European countries, with the exception of Great Britain, are more interested in land armaments than in navies.

(b) Attention was centering more and more on the disarmament movement at Geneva and the conviction was general that the problem should be considered as a whole and not piecemeal.

(c) Of greater importance was the almost universal conviction that a second Washington conference would fail. At the first conference the attempt had been made to secure agreement on ratios for all categories of ships. It had succeeded in regard to capital ships and aircraft carriers, but it had failed in regard to auxiliary craft of every description: cruisers, destroyers, submarines, and naval aircraft. There were profound political reasons for these failures. The British faced a problem in the Mediterranean which interested the United States slightly; that problem hardly touched capital ships, but seemed to Europe—not only to England—vital in the case of smaller ships. Neither France nor Italy was prepared voluntarily to abandon the control of this sea to the British; and the Admiralty in London were not prepared to abandon their preponderance in the Mediterranean, simply to reach agreement with us. This was only the most obvious and most dramatic of a number of such local strategical problems, which, after heated discussion at Washington, made it evident to all that agreement on ratios for auxiliary ships was, if not impossible, exceedingly difficult. As there had been no appreciable progress toward settling these problems, it was the general conviction in Europe that a formal discussion of them at Washington would not show any change in the situation that had already forced the delegates to abandon them. Some sort of a Mediterranean accord, of a political nature like the Locarno pacts, is thought to be necessary before any material reduction in cruiser strength is possible.

CHAPTER FOUR

THE PREPARATORY COMMISSION, 1926

BACKGROUND

THE Preparatory Commission for a General Disarmament Conference, which began its sessions at Geneva in the spring of 1926, marked the beginning of official coöperation between the American Government and the League of Nations on this problem of disarmament. The work at Geneva up till 1926 has already been reviewed. The separate American effort, culminating in the successful Washington Conference, has also been described. From this point on the two efforts touch at so many points that they can be considered together.

Reference should be made back to the discussion of the origin of this Preparatory Commission. It was not intended to be a diplomatic conference of plenipotentiaries. The political situation was obviously not ripe for a successful conference. It was the intention of the Assembly, in creating this commission, to call together a group of experts to clear the ground of certain technical difficulties and so to prepare the way for a political conference as soon as the international situation warranted some hope of success.

AMERICAN PARTICIPATION

THE Council of the League, in accordance with the resolutions of the 1925 Assembly, worked out a method of procedure for the Preparatory Commission, and in the hope of directing its work along fruitful lines, a special committee of the Council drew up an elaborate questionnaire. A heroic effort was made to separate the political from the technical aspects of the disarmament problem and to confine the consideration of the preparatory conference to the latter; with the explicit statement that this questionnaire was not an iron-bound form, it was submitted by the Council to the Preparatory Commission as a suggestion of the type of technical problems to be studied.

Two bodies of experts were already in existence whose advice

the Council felt could be utilized by the Preparatory Commission: the Permanent Advisory Committee on military, naval, and air matters—the P.A.C.—and the Joint Committee on Disarmament; the first was composed exclusively of military men, the second contained civilian elements. In order that the non-member states which were invited to the Preparatory Commission and which were not represented on these standing committees might be on an equal footing with the member states, the Council proposed that these two committees be enlarged to include citizens of the non-member states. For some reason which was not made clear the American Government objected to this procedure, and the P.A.C., to meet its wishes, was arbitrarily rechristened "Committee A."

The Council invited Russia and the United States to send delegates to this Preparatory Commission; it is evident that the land armaments of Europe cannot be discussed without consideration of Russia, and any limitation of naval armaments requires the cooperation of the United States. For reasons of internal politics Moscow wished to refuse the invitation, and seized upon the pretext of a quarrel with Switzerland; Washington accepted.

The American Government sent an unusually strong group of representatives; the diplomatic head of the delegation was Hugh Gibson, the American Minister to Switzerland; the military and naval delegates, General Dennis Nolan and Admiral Hilary Jones, outranked the military and naval advisers sent by other countries.

THE WORK OF THE COMMISSION

THE Preparatory Commission held its first session at Geneva on May 18, 1926. Mr. Loudon of the Netherlands was chosen president and the commission at once organized itself for work in committees and sub-committees. The reports of their discussion of varied technical aspects of the armament problem are voluminous, and will be of value for study of the problem in its details, but the records consist of explicit, often vehement, statements of divergent and conflicting points of view and show little agreement.

For this disappointing result, the delegates to the commission

are not solely to blame; it is now evident that the discussions were not wisely engaged. The questionnaire method, while of value in some forms of study, did not prove helpful in this case. The delegates were too deferential to it and might have accomplished more satisfactory results if they had been left to work out their own program. Some of the questions which the Council had submitted to them were unhappily phrased; in many cases it was impossible to answer one question without foreseeing the eventual answer to others.

Moreover, a much more serious difficulty handicapped the Preparatory Commission. The Assembly and Council had tried to separate political from technical considerations, but these labored debates showed that this distinction was fictitious and impossible to sustain. Separated from their political background, the technical disputes over armaments resembled the scholastic controversies between Abelard and Bernard of Clairvaux.

(a) The commission was asked to determine whether it is possible to make a sharp distinction between "offensive" and "defensive" armaments. It was too much to ask of the human nature of army or navy men to consider this problem from a purely technical point of view and to ignore the political effect of their answers. In the present state of public opinion the world over, it would be quite impossible for any General Staff or Admiralty to secure appropriation for "offensive" armaments; those whose profession calls upon them to supervise and develop armaments are well aware that their only argument is national defense, yet there is strong backing for the strategical dogma: offense is the best defense. Unable to ignore the political effect on next year's military appropriations, the commission spent days and days in futile discussion of this distinction, heroically resisting every effort that was made to separate goats from sheep, offensive from defensive arms.

(b) Similarly, it proved impossible for the army men to ignore the political question involved in the difference between conscript and volunteer armies. The British and American delegations took the side that favored nations whose political tendency was in favor of small volunteer armies; automatically the delegates from conti-

nental nations which believe that their political stability depends on universal military service took the other side.

(c) It was also found impossible to rise above the political considerations involved in the difference between land and sea power. Once more the British and American delegations found themselves almost always in agreement on questions affecting the relative importance of land and sea armament, against the continental delegates who as inevitably took the side of land armaments.

(d) A similar alignment was noticeable in regard to the question of "potentials." One of the outstanding lessons of the last war was the vast importance of a strong organization behind the armies; during the first year of the war the direct British military contribution was relatively small, but the aid which they gave to their allies in the "invisible" armaments, in "potentials," was of tremendous importance. This was even more clearly illustrated in the case of the United States; for the first year after the United States entered the war against Germany, the number of her troops on the battle field was very small, but her aid in "potentials" tremendous and decisive. Inevitably the nations which are weak in industrial organization feel that potential power should be taken into consideration in any matter of armament ratios. If a highly developed industrial country like Belgium were compared with a country of similar size and population in the Balkans on the basis of a plan for military equality between them, it would be necessary to take into account the superior economic resources of Belgium. As in the case of the discussions of conscript and volunteer armies and the similar discussion of sea power and land armaments, the delegates to the Preparatory Commission defended the positions which politically suited their respective countries.

The suggestion was made that the vigor with which the British and American delegations combated the idea of considering potentials was not unconnected with the debt controversy. England and the United States are asking payment for the contributions which they made in potentials. Establishment of a close identity between visible and invisible armaments might permit the French in the discussions of war debts to bring forward the theory of

common contribution in the war, men from one country, supplies and credits from another. It is doubtful whether in England or America the war colleges would support the position defended by the English and American delegates at Geneva.

(e) An even more striking illustration of the degree to which political considerations influenced the discussion of technical problems at the Preparatory Commission was furnished the next summer at the Three Power Conference. The American and British delegations, largely composed of the same men, frequently took positions in discussions among themselves which were the exact opposite from those they took in the Preparatory Commission when they formed a bloc in opposition to the continental countries.

The Preparatory Commission was troubled by another difficulty which faces every other commission or conference that meets at Geneva. As long as the nations insist on their sovereignty, it is necessary to carry on international affairs by unanimous consent; any one nation which is not convinced or which is ill-disposed can block action: domestic political life, on the contrary, is based on majority rule. The technique of securing unanimous agreement is completely different from that of marshalling a majority, and parliamentary experience is the worst possible training for international conference; if a majority suffices, it may be good tactics to antagonize your opponents whom you hope to overwhelm, but when the object is to secure unanimous agreement every difference of opinion must be met with patience and conciliation. It happened too often in this Preparatory Commission that all possibility of unanimous agreement was wrecked by a prompt appeal to a vote. Inevitably in such a commission the naval Powers were outnumbered by the land Powers and the British and American admirals were so incensed at being outvoted by majorities which included land-locked countries like Czechoslovakia and countries of no naval development like Poland that they were not prepared to agree with their opponents on anything. Occasionally by clever tactics the British-American bloc was able to muster a majority against France, but such majorities are of little value when each nation holds a veto power, and they serve

only to engender hard feeling which makes ultimate agreement more difficult.

This difficulty was marked in the Preparatory Commission, but it has been evident on many other occasions and in many other circumstances. The majority of public men today have grown to prominence through parliamentary experience or are controlled by parliamentary tradition and are, therefore, handicapped in a situation which requires a new technique; the nations which go often to Geneva and more frequently engage in international negotiations have risen above this handicap to a considerable degree; but American delegations to conferences of the League are in this respect usually at a disadvantage.

With some interruptions, one or another of the committees of this Preparatory Commission sat through the summer and fall of 1926 and into 1927. The amount of paper used for their discussions set a new record for conferences at Geneva, but this voluminous report did not materially clarify the problems which had perplexed the political heads of states and on which they had sought the technical advice of the committee. Yet while the commission was able in general to agree on only a few points, much useful information on the problem of armaments was collected and may prove of value in the future; the Assembly of September, 1927, refused to be discouraged and has ordered the Preparatory Commission to continue its work.

CHAPTER FIVE

THE THREE POWER CONFERENCE

THE INVITATION

TWO things in the American invitation of February 10, 1927, to Great Britain, France, Italy, and Japan to a naval conference attracted attention, two things that made it possible to forecast the responses of the different governments. First: the American Government proposed to separate land and sea armaments and to deal only with the latter. Second: the proposed discussions were limited to the technical aspects of the problem, excluding any consideration of the politics of "security," in which the continental Powers were principally interested.

That the French Government would for these reasons refuse the invitation was inevitable; in fact, it seemed to many French people that the invitation was drawn up with the intention of making it impossible for them to accept. Their position on these points was a matter of record; throughout the meetings of the Preparatory Commission their delegates had argued that land and sea armaments were intertwined to such a degree that the problem must be dealt with as a whole and not piecemeal; they were committed to the hilt to the theory that security must be the basis of disarmament. Unless they were to stultify themselves they had to refuse the invitation.

There was continued resentment in Paris at the treatment, in French view inconsiderate, which the French delegates had received at the Washington Conference, but of more importance was the conviction that the conference could not succeed under the terms of reference which the President had laid down, and they did not wish to risk being blamed for a failure that their experience at Washington led them to fear.

The Italian Government did not like the invitation any better than the French. The present *régime* in Italy displays little enthusiasm for projects of reducing armaments, especially at sea.

The acceptance of Japan was as inevitable as the refusal of France and Italy. Her main need for a large navy at present is as

a counterweight to the American. Whatever "imperialistic" designs any of her statesmen may harbor on the continent of Asia, the call is for a large army as much as for sea power. The Japanese Government are little interested in the land armaments of Europe, and have repeatedly stated that they would be glad to reduce their naval expenses if Great Britain and America were ready to do so. They have announced that they would welcome such a conference, anywhere and at any time.

The British response to our invitation was based on more complicated motives. Their interest in the conference lessened as soon as France and Italy refused the invitation. There might have been considerable gain for them in the opportunity to discuss the naval balance in the Mediterranean with France and Italy, while the United States and Japan, with no interests in that area, sat by and counselled moderation.

British diplomacy all over the world and in every circumstance has been strengthened wherever it has appeared that there was accord and coöperation between London and Washington. The myth of an effective Anglo-American understanding, which is commonly believed in Europe, was strengthened by the unity between the British and American delegations during the long discussions of the Preparatory Commission. A refusal of the President's invitation would have advertised the fact that the accord between Washington and London was not so effective as the British liked to have others believe.

The British Government instructed the Admiralty to draw up a project in regard to the categories of warships, not covered by the Washington agreement, the limitation of which would result in a reduction of expenses. There seems to be some doubt as to the extent to which the civilian side of the government gave attention to the details of the project prepared by the Admiralty. Apparently much the same procedure was followed at Washington, for there is no indication that the cabinet gave thorough study to the American proposals. It seems that each government took it for granted that its naval advisers could work out proposals which would reduce the expenditures on naval armaments and which would be acceptable to the other government. This as-

sumption was proved unwarranted by events. The admirals of both countries had been trained from their youth to plan to win. Each side worked out a proposal which, if accepted, would have reduced naval expenditures, but would at the same time have enhanced its own chance of winning in case of war. Both the British and American delegations at Geneva were surprised that their respective programs were unacceptable.

The American delegates were optimistic, hoping that some agreement for real limitation would be reached; but they expected that it would be necessary to put in a saving clause to the effect that, if any non-signatory Power began building ships in any category to an extent that threatened the naval balance, the three signatories should reconvene to revise the agreement. As all non-signatory naval Powers were members of the League, the American delegation felt it was unlikely that they would initiate a building program which would upset a disarmament agreement reached at the League headquarters. The British Admiralty urged some other capital; Brussels was mentioned for a time, but the American Government pressed for Geneva.

The situation existing in the Preparatory Commission, in which the American delegation had outranked the other delegations, was reversed at the Three Power Conference. Mr. Gibson, who had just been appointed ambassador to Belgium, headed the delegation, with Admiral Hilary Jones as his chief naval adviser. The Japanese sent Admiral Saito, ex-Minister of the Navy, and Viscount Ishii, their ambassador in Paris. The British sent two cabinet ministers and Admiral Jellicoe.

The contrast with the Washington Conference was also striking. There the American delegation consisted of Secretary Hughes, Senators Lodge and Underwood, and Mr. Root; the political weight of this delegation was thus far greater than that sent to the Three Power Conference at Geneva.

THE CONFERENCE

PRESIDENT COOLIDGE read his message to Congress on February 10, 1927, announcing his proposal that the five Powers which had signed the naval treaty at Washington—the United States, Eng-

land, France, Italy, and Japan—should empower their delegates to the Preparatory Commission at Geneva to discuss, draft, and sign a new treaty, extending the ratio system to the categories of warships not covered by the Washington Conference.

France and Italy having refused the invitation, the representatives of the British Empire, Japan, and the United States met for the first time in the Council Room of the League on June 20, 1927; there was a second public plenary session on July 14; the final failure was registered in a third public session in the Hotel des Bergues on August 4. There had been many formal, if private, meetings of sub-committees, and the chiefs of the delegations had met frequently for informal conversations.

The tactics of this conference differed completely from those of Washington. Mr. Hughes had opened the earlier conference with a detailed program, calling for an all-round scrapping of ships. He was in a strong position because the alternative was a race in armaments in which the United States would be sure to win. At the Three Power Conference the situation was reversed: the British had more cruisers than the United States; it mattered little what the United States proposed; the important thing was what the British would decide.

The British decided against any reduction in cruiser strength. Mr. Bridgeman, for the Admiralty, proposed to increase the British cruiser fleet and made any hope of agreement impossible by basing his memorandum on what the British sea lords considered to be "the minimum needs of imperial defense."

The technical aspects of the triangular dispute among the naval strategists of London, Tokio, and Washington were discussed in detail by various sub-committees, and are still being treated in technical publications by competent authorities. The "Records of the Conference for the Limitation of Naval Armament" was published at Geneva without imprint in the usual format of League documents. Only the main, non-technical aspects of the conference can be set forth in the following survey.

The absence of the two Mediterranean naval Powers which cannot afford to separate land from sea armaments rendered success less likely; but among other causes of failure there were

two, either of which was sufficient to defeat the purposes of the conference: first, the limitation of the discussions to the technical aspects of the problem; second, the British contention that each nation should determine for itself what was "needful" for national defense.

For some reason the American Government, in planning for this conference, abandoned the method which Mr. Hughes had used successfully, and, instead of considering the problem of naval strategy against its background of political relationships, decided to attack the problem in the narrow form of "types and tonnage." Certainly nothing which had happened at the Preparatory Commission encouraged the hope that progress could be made by an attempt to ignore the political factors. There is no "technical" base for establishing ratios of armament among nations; it is impossible to determine what type of ships or how many of them are "needful" unless there is an understanding of the purposes for which they are intended.

This point, on which there has been much confusion, demands clarification. In strategy, as in mathematics, it is necessary to state the problem clearly. When the British Government had arranged an alliance with Japan which allowed it to count on the Japanese navy to protect its interests in the Pacific, when it had come to an understanding with France which assured its communications in the Mediterranean, it could say to the Admiralty: —"The Foreign Office has simplified the problem for you. It further undertakes not to allow any controversy with the United States to develop to the point of war. You may concentrate your attention on Germany. What kind of ships do you need and how many?" That was a real problem.

At Annapolis, the professors state the problems of Kriegspiel precisely. "The Blue Navy, having bases at such and such points, consisting of such and such units, is threatening the Virgin Islands. What forces will you collect, based on Colon, to assure their defense?" "The White Navy is divided into three fleets, based on A, B, and C. You are in command of forces which are ordered to rendezvous at D. United, you are stronger than any two of the White fleets, but weaker than their combined strength. As

your force concentrates, you receive news by air scouts that the enemy fleet at A has left its base and is steaming towards C. What orders would you issue?"

But if the civilian side of the government says to its naval advisers: "What kind of navy is needful to meet all eventualities? You must not think of any definite enemy or strategical problem; you may have to face all the world combined; you may have to fight in any sea: what kind of ships and how many will you need?" —neither a First Lord of the Admiralty nor a first year cadet at Annapolis could answer honestly. An attempt to work out a ratio on the base of "types and tonnage," when there is no agreement as to the purposes for which the ships will be employed, is an attempt to square the circle.

But though it might have been possible for the conference to rise above the limitations of the invitation and to discuss at least informally the political material on which the technicians were to work, any hope of accord was ruined by the basic thesis of the Bridgeman memorandum and Admiral Jellicoe's crude statement of the Admiralty's position at a later meeting. That seemed to be the following:

> In 1914 we did not have enough ships to protect our commerce; in spite of our superiority to everybody else, our force was inadequate; German sea-raiders caused tremendous damage to our far flung commerce, endangered our food supply; our navy was unable to fulfill the promises it had made to the British people. Only God can foresee the circumstances of the next war, but we need all the ships we can get. We think we can persuade the tax payers to furnish the price of seventy-five cruisers and we shall not agree to less. In fact, considering our needs, the length of our communications and the dependence of the homeland on sea-borne commerce, it is a moderate demand. Obviously, it is a purely defensive program.

The Preparatory Commission had spent weeks discussing the difference between "offensive" and "defensive" armaments on land and had established no clear distinction. There is even less distinction at sea, and especially in the case of warships of long cruising radius. If the British are to have a navy capable of defending their "imperial communications" with Canada, it must

be strong enough to drive every other warship from the North Atlantic. If they are to have a navy strong enough to protect their commerce in the Mediterranean, it must be strong enough to deny that inland sea to the French or Italian flag. They cannot hope to "defend" their own far-flung commerce unless they are strong enough to cut the communications of all the world.

The Admiralty were ingenuous if they thought that the rest of the world would accept the thesis that, in order to feel safe themselves, the British were justified in denying security to others.

On the Admiralty basis, there could be no hope for an agreement on the limitation of armaments. After the failure of the conference President Coolidge accepted the same theory; in recommending appropriations for an increased building program, he told Congress that, while the new proposals did not mean competition in armaments, the United States, uninfluenced by foreign propaganda, should determine for herself what manner of navy was needful.

The American delegation to the conference had been optimistic before it opened. They were not only disappointed, they were astonished at Bridgeman's demands. This started a controversy in the press, making good "copy" for newspapers which know that stories of quarrels sell well; the only lesson to be learned from it was that there had not been enough diplomatic preparation on one side or the other, perhaps on both. It would have been the part of experienced diplomacy to hold preliminary conversations with the British and to say: "The onus of any reduction in naval armaments will fall on us both. It may be impossible to agree on anything else, but at least we are agreed that we have nothing to gain from a quarrel in public; neither of us wishes to stir up popular agitation at home against the other. Let us make sure that we have the basis of a substantial accord before we call in the rest of the world to listen."

If the American Government had reasons to believe that it would be possible in 1927 to obtain agreement from the five naval Powers on the ratio for auxiliary ships which the Washington Conference failed to reach, it has not made them public. America, Britain, and Japan in 1922 accepted the 5-5-3 ratio on capital

ships, but it was impossible, largely because of the situation in the Mediterranean, to agree on this or another ratio for smaller ships. If France and Italy had accepted the invitation in 1927, and had been willing to reduce their navies to a ratio which seemed satisfactory to the British, there might have been some hope, but neither France nor Italy was willing to consider sea power separated from land armaments, and France consistently insisted on making political security the basis of disarmament. It was the same vicious circle that had limited the scope of the 1922 conference.

At this unfortunate 1927 conference, such fundamental considerations were obscured, at least in the public mind, by an Anglo-American quarrel over the meaning of the word "equality." Anglo-American naval equality had been limited at the Washington Conference to capital ships, and the limitation was emphasized by the unsuccessful attempt to establish the same ratio for auxiliary craft; but this limitation was not stressed on the western side of the Atlantic, and the American public generally thought not only that there should be unqualified equality between the British and American fleets, but that the British had agreed to it.

In the discussions at Geneva, and in the newspaper reports of these discussions, the word "equality" was superseded by "parity." But there was no official statement to indicate whether "parity" was more or less than "equality."

These words applied to naval matters are meaningless. If the impossible happened, and the British and Americans agreed to sink all their warships except one apiece, and the two survivors were sister ships, exactly duplicate in all details, there would be no "equality" or "parity" unless they made a supplementary agreement only to fight in a zone equidistant from two respective bases. A navy, whether it consists of one ship or a thousand, loses in power as the distance from its base increases; if the two fleets could be made identical each navy would be supreme in its own waters, and there would be equality only at points equally distant from the two bases. When one considers the actualities of our day, the difficulty of reaching a clear definition of "equality" or "parity" is infinitely increased.

Because it is so difficult to define, it is particularly dangerous,

for it has become a phrase of "prestige" on both sides; and of all controversies a diplomat must consider, those that affect "prestige" are the hardest to resolve.

Certainly the question: "What do you mean by 'equality'?" should have been cleared up before the conference convened. It developed at once that the British and American definitions were worlds apart.

The British contended that when they agreed to "equality," they meant "strategic equality." We must try, they said, to approximate equality between our two navies as nearly as possible. The ideal situation, they said, would be that if a diplomatic quarrel should arise, and the two governments should call in their naval advisers and say: "The situation is strained; if we declare war, can you promise us victory at sea?" the naval advisers of both countries should reply, "No, we have no more than an even chance."

Under that definition of "equality" it is necessary to consider only the high sea fleets which could conceivably be used against each other. Such "strategic equality," the British maintained, did not at all affect the problem of how many small cruisers they needed to protect their commerce and imperial interests in seas where the American battle fleets would not operate.

The Americans maintained on the contrary that "equality" meant "ton for ton" or "mathematical equality." We must agree, they said, on a total cruiser tonnage. You can build small cruisers within this limit, if you wish. We prefer big ones. If we agree on 160,000 tons, you can build 20 cruisers of 8,000 tons; we shall build 16 of 10,000.

Neither of these proposed definitions would give practical equality. The small cruisers, which the British said could not conceivably be used against our battle fleets, could be used effectively to attack our commerce; while in any naval engagement, the 10,000 ton cruisers which we insisted upon would be of vastly more help to a battle fleet than any number of 8,000 ton cruisers. A whole complex of geographical and political considerations made it inevitable that the purposes of the two navies should differ; the strategical problems they must face are different. At

Geneva each side argued for a definition of "equality" or "parity" which, if accepted, would give it superiority.

Under the heated discussion of what is meant by "equality" was a much deeper political issue. Bagehot says of Paley that he "said many shrewd things, but he never said a better thing than that it was much harder to make men see a difficulty than comprehend the explanation of it. The key to the difficulties of most discussed and unsettled questions is commonly in their undiscussed parts."

The real issue in any Anglo-American naval discussion is what has loosely been called "the freedom of the seas." Neither the British nor the American Government is seriously considering a war between the two countries; it is what they please to call "unthinkable." Both are concerned with the rights of neutral trade in case either is engaged in war with somebody else; but the American note proposing the conference definitely limited the discussions to the technical problem of "providing for limitations in the classes of naval vessels not covered by the Washington treaty," and so definitely excluded consideration of the large political questions.

The temper of the British and American delegates was overstrained by the impossible task of trying to find technical justification for political purposes. The heat with which diplomatic representatives defend what they consider to be the interests of their country has been described by M. Cambon in his little book, *Le Diplomate*, in a manner which loses some of its graceful wit in translation. "Bismarck," he wrote, "called this difficulty the *morbus consularis*. It is a disease which is endemic everywhere. Talleyrand had long before prescribed the remedy when he said to his secretaries '*Surtout, Messieurs, pas de zèle.*' Thiers expressed the same thought in the phrase: 'You must take everything seriously, nothing tragically.' Bismarck, Talleyrand, Thiers! Is it not amusing to find all three of them equally anxious to see their agents practice moderation in all things?"

Judged by the statements made in the American memorandum of February 10, 1927, and the President's message of the same date, the conference was a failure. Called for the purpose of im-

proving the relations between the nations, it drove the wedge deeper between the land and sea Powers; it worsened the relations between the English-speaking nations. Called for the purpose of reducing the burden of armaments, it paved the way for the biggest naval bill in Congress since the World War.

CHAPTER SIX

1927 ASSEMBLY

THE VITALITY OF THE PROTOCOL

AT the Assembly of the League in September, 1927, the problem of disarmament figured largely in the debates. The delegates had to face the fact that the Preparatory Commission had not produced the results for which they had hoped, and added to the discouragement of this relative failure was the complete failure of the Three Power Conference; these setbacks stimulated the Assembly to renewed efforts, and the most striking aspect of the debate was the evidence of vitality in the Protocol idea; it was seen that the discussions of the Protocol had gone to the very roots of the armament problem. Machinery for the pacific settlement of international disputes as a substitute for war and the obligation of appeal to that machinery seem to the statesmen of the continent the only road to security, the sole basis of disarmament.

Chamberlain once more had to defend the British refusal to ratify the Protocol. This time he was able to secure more endorsement from the Dominions. The delegate of Australia spoke of the attempts at "compulsory arbitration" of labor disputes in his country, and from the fact that it had failed to produce the hoped-for industrial peace, he argued that compulsory arbitration in international affairs would be an equal disappointment. The Canadian delegate, who favored the principle of arbitration, said that Canada could not consider the Protocol without taking into account the long unfortified frontier with the United States, and the fact that the United States was outside of the membership of the League made the problem of effective action against an aggressor nation infinitely more complicated. The Canadian Government, therefore, did not feel it possible to enter into any engagement which might force it into a controversy with its great southern neighbor. In the course of his speech Chamberlain admitted that the British Empire stood alone in opposition to the Protocol.

One of the most notable events connected with the Assembly was the adhesion of Germany to the optional clause recognizing the

compulsory jurisdiction of the Permanent Court of International Justice. This act was of especial importance in the effort to substitute legal process for war, as Germany is the first of the Great Powers to accept the principle of automatic, rather than optional, reference to the court of juridical disputes.

It was, of course, generally recognized that no progress could be made with the full program of the Protocol in the face of British opposition, and considerable time was therefore devoted to the discussion of the Locarno accords, which had applied the principles of the Protocol to a limited area, and to the possibility of negotiating similar accords in other troubled areas. Although the formal discussions in the sessions of the Assembly were intentionally vague and "named no names," the possibility of accords similar to those of Locarno in regard to the Baltic and Balkan areas was discussed at great length by the diplomats of the countries concerned in the private and personal discussions for which Geneva is becoming famous. No definite results have been announced but negotiations are in progress which may bring concrete results.

Another outstanding feature of this Assembly of the League was the attention given to the American pandect—the "outlawry of war." In general the attitude of the European nations has been that the Covenant of the League, by which all are bound, has gone as far as any declaration could go in declaring war to be a crime, and their discussions have been concentrated on the questions of how to define the crime in formal legal terms, how to educate public opinion into a definite condemnation of the crime, and how to organize police power to prevent and punish it. But the Polish delegate introduced a new resolution, condemning aggressive war as an international crime, and in the discussion that followed, he and many of his colleagues supported the resolution on the ground of its educational value and the effectiveness in educating public opinion by frequent reiterations of a principle already accepted by the more thoughtful. This resolution was unanimously accepted.

SPEEDING UP THE PREPARATORY COMMISSION

THERE was also earnest debate as to what should be done in regard to the failure of the Preparatory Commission to perform the work

which had been expected of it. Some voices were raised in favor of discharging the commission and organizing a new one on different lines. The opinion prevailed that to reconvene the Preparatory Commission was desirable, to urge it to greater activity, and to supplement its work by the creation in coördination with it of a new committee to consider more explicitly the political problems of security and arbitration and so reduce the temptation of the Preparatory Commission to allow political considerations to complicate its work.

CHAPTER SEVEN

NAVAL ARMAMENTS: A SPECIAL AMERICAN INTEREST

IN President Coolidge's message to Congress of February 10, 1927, and in the memorandum to the five naval Powers, he emphasized the fact of our special relation to sea power. Our land forces, like those of Japan, have not the functions of the European armies, and an increase or decrease of men under arms in Europe would not affect the plans of the General Staffs in Washington or Tokio; but navies are inter-continental, no new warship can be launched anywhere without influencing naval strategy everywhere.

The United States can contribute little to solve the problem of reducing land armies, but in the matter of warships it has a vital interest; we cannot escape responsibility, and we can, if we will, take the leadership in the campaign for reduction, as Mr. Hughes's experiment demonstrated.

The proposal has been made in many quarters that a new conference should be called. The five signatories of the Washington Naval Treaty meet again automatically in 1931, but there is little hope for accord in a new conference if its bases are to be the same as those of the one that failed. A by-product of good import from the Three Power Conference may be a discovery of some of the conditions which might make a new conference more promising.

Neither the British Admiralty nor our General Navy Board can work out a program on the basis of what is "needful" for defense against all comers and expect the others to accept it. If war between us is "unthinkable," as statesmen say while navy men are thinking about it, we could both scrap a great many ships; if it is not quite "unthinkable," we shall have to watch each other's building programs carefully; if war is inevitable, as some retired admirals proclaim, we should try to outbuild each other before it breaks out, and it would be wise for the British to declare war at once while they have some superiority.

There cannot be any naval accord until this question is faced.

There must be consideration of the political situation, some frank understanding of the purposes for which warships are planned.

The chances of success in another conference would be enhanced if the membership were enlarged. The British Admiralty cannot make their plans solely in regard to the United States and Japan; they must consider the problem of the Mediterranean, which does not vitally affect or interest either Tokio or Washington. The effort should be made to include at least France and Italy, which, as continental nations, are both forced to consider armies as well as navies. A sharp divorce of the two problems, or any appearance that there is conflict between them, makes it almost impossible for these amphibious powers to coöperate.

All nations must consider the problem of "security" when they discuss armaments. Americans do, even if they do not realize it, for the fact that we are not so exposed to invasions as are other countries profoundly influences our military plans. Many ingenious and fantastic explanations of why Congress refused to accept the Wilbur naval program—ranging from church influence to communist conspiracy—have been constructed; undoubtedly many motives were mixed in the revolt of public opinion against the proposed expenditure. But the obvious, the simplest, and certainly an adequate, explanation is that the American people are not afraid.

The chances of success in any future discussion of the limitation of naval armaments will be enhanced if there is a return to the policy of Mr. Hughes, and a frank acceptance of the truth that political adjustments which tend to render the menace of war more remote are a necessary accompaniment of the reduction of armaments.

In the memorandum of February 10, 1927, President Coolidge stated that the naval conference he was proposing was intended to supplement and support the work of the Preparatory Commission at Geneva. Unfortunately a number of infelicitous circumstances made it seem to some observers that the President's proposal was in competition with and hostile to the work of the League of Nations; if there is any appearance of such antagonism in future proposals, we can expect that those nations which have

more confidence in the disarmament plans of the League than in those of the American Government will inevitably be in opposition.

A good example of the kind of preparation that is necessary was furnished by the long diplomatic negotiations which preceded the conference at Locarno. The Germans made their proposal of a Rhine security pact in February, 1925. All through the spring, summer, and early fall there was an active exchange of diplomatic notes between London, Berlin, and Paris and an informal preliminary conference of jurists. There is advantage in the opportunity for careful study of written documents if they are something more than an exercise in public dialectics; the ideas of the different governments and the mutual concessions necessary are made clear, and the words are sharply defined. When the conference assembled in November, everyone was amazed at the speed with which the complicated documents were drafted and agreed upon. The Locarno conference would probably have failed, certainly its work would have been greatly prolonged, if there had not been this careful preparation.

Obviously no progress can be effected in naval disarmament unless there is an agreement between London and Washington. Reviews of the Three Power Conference show a marked agreement on the conclusion that the real issue, the undiscussed difficulty which caused the failure, was the question of the rights of neutral trade in times of war. Unless this difficulty is brought out of the shade and a way found for resolving it there is small chance that any future discussion of the types and tonnage of cruisers will be more successful than in 1927.

CHAPTER EIGHT

ANGLO-AMERICAN NAVAL CONTROVERSY

NEUTRAL RIGHTS IN NAVAL WARFARE

FROM the earliest times those who go down to the sea in ships have had to give thought to the problem of how to protect their argosies from the arbitrariness of power. In the oration "On the Treaty," Demosthenes accused Alexander the Great of having violated the article which read: "The signatory Powers shall all have the full freedom of the seas; none shall molest them nor seize their ships on pain of being regarded as the common enemy."

The idea of piracy was gradually separated from that of war. Piracy was defined as "an act of war in times of peace" and outlawed; but well into the nineteenth century privateering, the act of piracy in time of war, was still good form.

The protection of peaceful cargoes from arbitrary seizure was one of the principal preoccupations of the Hanseatic League, and something approaching a code of sea law was worked out by the Mediterranean Powers in the fourteenth century and called the Consolato del Mare. Under this rule the ships and goods of the enemy were lawful prize, but the property of neutrals was immune.

Grotius in the seventeenth century made the distinctions of three categories of cargoes which have been the subject of endless discussion among international jurists:

(1) "Innocent," always free from seizure.

(2) "Conditional contraband," seizable if destined for enemy forces.

(3) "Absolute contraband."

During the Seven Years' War, Great Britain by the "Rule of 1756" forbade neutrals to become carriers between France and her colonies. When neutrals tried to evade this ruling by transshipment the British prize courts developed the doctrine of "continuous voyage and ultimate destination." Commenting on the development of the theory of neutral rights in naval warfare,

Leonard Stein writes in *The Nation and Athenaeum* (London, December 31, 1927):

> . . . in the final struggle with Napoleon, Great Britain used her sea power to the furthest limit in her effort to annihilate the enemy's trade. The culminating point was reached in 1807, when, in retaliation for Napoleon's Berlin Decree, prohibiting trade between Great Britain and the Continent, a British Order in Council declared a blockade of France and of all states which excluded the British flag from their ports. Great Britain's assertion of her belligerent rights, as she construed them, at the expense of neutral trade and shipping, ranged against her the Armed Neutralities of 1780 and 1800 and involved her in 1812 in war with the United States.

The logic of circumstances has forced the United States into controversy with Great Britain over this question of neutral rights ever since our birth as a nation; it is almost the longest thread in the skein of our diplomatic history. The conflict has flared up or died down as our interest in the seas has waxed or waned. All nations that use the seas as an area of peaceful trade have interests inevitably in opposition to those of any Power that considers the seas as an arena of warfare. Circumstances change the rôle of the various nations in this dramatic debate between neutral and belligerent, but it is a general rule that those who wish to trade at sea are opposed to those who wish to fight at sea. This means in practice that the nation which in any decade "rules the waves" finds all other seafaring nations united against it in interest if not in formal alliance.

In the early days of our republic, before we turned our attention to our own continent, we lived by the sea and were in constant conflict with the British, who ruled the waves. As the Napoleonic epic developed it became more and more difficult for us to remain neutral; we found both groups of belligerents invading what we considered to be our rights, and for a time it was uncertain whether we should fight for or against Napoleon; at last we declared war on England in 1812. It was a futile, indecisive war; we were unfortunate in our land campaigns, but had some striking successes at sea. In the end we obtained a favorable treaty, but the question of neutral rights was not settled. National interest in the con-

troversy died down as we turned our attention to the winning of the west.

The controversy became once more acute on a broad, international basis in connection with the Crimean War. In January, 1854, when Russia had declared war on Turkey, but before England and France had entered the conflict, the Swedish Government addressed a note to the British Foreign Office, stating the Scandinavian view of the rights of neutrals and containing an implied threat of a reorganization of the Armed Neutralities of the Napoleonic era. The British Government replied that, while not prejudicing its traditional claims, it would, as a special exception and for the duration of the war, meet the wishes of the neutrals by not exercising some of the rights which international law accorded to a belligerent.

Many reasons were given for this temporary waiver of traditional claims. Such a self-sufficing land Power as Russia could not be reduced by a naval blockade. The war was to be waged in alliance with France, and the French theory of sea law differed so sharply from that of England that the efficient conduct of the war demanded some compromise. The British and the French were separated from Russia and from their ally, Turkey, by the neutral mass of central Europe. The chance that Sweden, Denmark, the German states, or Austria might join the Tsar was too grave a danger to be ignored. Russia had no large mercantile marine to serve as a target for the navy, but there was danger that, although she had no navy of her own, the Tsar might issue *lettres de marque* to adventurers of other nationalities to prey on British shipping. In such circumstances, Anglo-Saxon common sense dictated concessions to neutral opinion.

But these concessions, which were granted "temporarily," "for the duration of the war," were to a large extent rendered permanent after its successful conclusion by the Declaration of Paris in 1856; the widespread protest of the nations which had been neutral in that war forced a discussion of the whole subject. The resultant Declaration recognized the rights of belligerents to publish lists of contraband commodities which neutrals could not furnish to the enemy without risk of seizure. Aside from contra-

band, the Declaration announced the immunity of the private property of enemies on neutral ships and the private property of neutrals on enemy ships; it stated that a naval blockade to be legal must be effective; and it abolished privateering. The Declaration was a compromise, as all codes of agreement must be. The compromise lay principally between England and France, the main antagonists in the Napoleonic wars, more recently allied against Russia in the Crimean war; the British accepted definite limitations on "the right of seizure" and the French gave up their theory of "paper blockades" or "blockades by edict."

The acceptance by France and England at the outbreak of the Crimean War of "certain relaxations" favorable to neutrals gave the American Government an opportunity to move, and in his message to Congress of December 4, 1854, President Pierce stated that as the allies, at least for the purposes of this war, had accepted the American position, he thought fit to propose a general and permanent agreement. "Accordingly a proposition embracing not only the rule that free ships make free goods, except contraband articles, but also the less contested one that neutral property other than contraband though on board enemy's ships shall be exempt from confiscation, has been submitted by this government to those of Europe and America."

Russia at once accepted the proposal, and a treaty was concluded. The other Powers expressed sympathy, but desired to wait till hostilities were over. The King of Prussia approved, but wished to add an article abolishing privateering.

President Pierce devoted two long paragraphs in explaining why this was unacceptable. He pointed out that the British had ten times as many warships as we had. If the destruction of the enemy's commerce were limited to ships already in commission, the English could do ten times the damage to us that we could do to them. (This consideration undoubtedly influenced the British Government in its insistence that privateering should be abolished.) President Pierce drew an ingenious analogy between privateers at sea and volunteers on land; a nation had to choose between maintaining a large standing army or trust to the patriotism of its citizens to volunteer in time of war. It was the

same at sea; unless a nation developed a large navy in peace-time, it had to rely on private commercial shipowners to arm their vessels for national defense in war.

He qualified this refusal by the following important statement which was later quoted in substance, if not in words, by the Horsfall Select Committee of the House of Commons on Merchant Shipping in 1860.

> The proposal to surrender the right to employ privateers is professedly founded upon the principle that private property of unoffending noncombatants, though enemies, should be exempt from the ravages of war; but the proposed surrender goes but little way in carrying out that principle, which equally requires that such private property should not be seized or molested by national ships of war. Should the leading Powers of Europe concur in proposing as a rule of international law to exempt private property upon the ocean from seizure by public armed cruisers as well as by privateers, the United States will readily meet them upon that broad ground.

So the American position on the freedom of the seas was well known to the European governments which met at Paris two years later to liquidate the Crimean War and, incidentally, to draw up a declaration in regard to the laws of naval warfare. Their request that the American Government should adhere to their four principles evoked an indignant reply from Mr. Marcy, the Secretary of State, dated July 28, 1856.

Mr. Marcy was indignant that a conference of European Powers, to which the United States was not a party, should assume the function of discussing and amending international law. He was the more indignant because this limited conference, in undertaking this revision of the Maritime Code, had ignored the negotiations started two years earlier by the President of the United States, not with the small group of belligerents, but with all the maritime nations. But most of all he was indignant because in the protocol of the last sitting of the conference, the statement was made that the four points of the Declaration were "indivisible" and that the nations which adhered to it "*ne pourront entrer, a l'avenir, sur l'application du droit des neutres en temps de guerre,*

en aucun arrangement qui ne repose à la fois sur les quatre principes, objets de la dite déclaration." The Powers represented at the Paris conference had in this manner sought to veto the negotiations then in progress on the initiative of the American Government.

Mr. Marcy then considered the points of the Declaration on their merits. The second, third, and fourth presented no difficulty; they were in fact exactly what the American Government had always desired. In regard to the first point he reiterated and expanded the argument of President Pierce. Speaking definitely from the point of view of neutrality, the American President and Secretary of State could not see that it hurt the private shipper more to have his goods seized by a privateer than by a man of war. We were willing to grant immunity to all non-contraband private property but were unwilling to give up privateering unless this were done.

The American Government returned to the charge the following year and, under date of February 24, 1858, Mr. Dallas, our Minister in London, presented a note to the Foreign Office, arguing the whole matter again and submitting a draft treaty which was word for word identical with the Declaration of Paris, except that the first point was expanded as follows:

> First: That privateering is, and shall remain abolished, and the private property of subjects or citizens of a belligerent on the high seas shall be exempted from seizure by the public armed vessels of the other belligerent, except it be contraband.

On April 25, 1857, Mr. Dallas notified the Foreign Office that he had been instructed "to suspend negotiations" on this subject. The reasons for this withdrawal of the proposed treaty are obscure. There had been a change of administration in Washington, and also there may have been some indication that it was unacceptable to the British.

There were no new developments in this age-old dispute until the outbreak of the Civil War in 1861. The rapidity with which the center of interest then shifted is typical of this whole controversy. From the Declaration of Paris, 1856, to the beginning of the

Civil War, a period of less than five years, the argument had been over privateering. The British wished to abolish it; we insisted that it was legal. Both governments had been thinking of a hypothetical war in which we should be engaged against a European nation with rich sea trade for us to raid. The Confederacy, however, had no merchant marine. The government at Washington lost interest in privateering. We did not formally give up the right to issue *lettres de marque;* we abandoned it in practice, and that issue has dropped out of the dispute. In fact, the diplomatic correspondence of the early 'sixties between Washington and the European capitals was dominated by another question—were the hostilities an international war or a domestic rebellion?

In a dispatch of May 6, 1861, Lord Russell wrote to Earl Cowley, the British Ambassador at Paris:

> Although Her Majesty's Government have received no dispatches from Lord Lyons, (British Ambassador at Washington) by the mail which has just arrived . . . the accounts . . . from some of Her Majesty's consuls . . . are sufficient to show that a civil war has broken out among the States, which lately composed the American union. . . . it appears to Her Majesty's Government that looking at all the circumstances of the case, they cannot hesitate to admit that such Confederacy is entitled to be considered as a belligerent. . . .

Referring them to

> President Lincoln, on behalf of the Northern Portion of the late United States . . . on the other hand, President Davis, on behalf of the Southern portion of the late Union. . . .

Lord Russell went on to propose that the French and British Governments should make joint representations to both portions of the "late Union" on behalf of the Declaration of Paris. The haste with which the British Government had decided to recognize the belligerency of the Confederacy—without waiting for advices from its ambassador at Washington—was deeply resented by Lincoln and Seward.

The discussions of international law touching the freedom of the seas which arose during the Civil War—blockade, continuous

voyage, the Trent affair, the Alabama Claims, etc.—must be viewed against the background of this original dispute—was the Federal Government engaged in an international war or in police action against a domestic rebellion?

The American Government refused to accept the Declaration of Paris because it prohibited "privateering"; we had found this method of sea-war effective in 1812 and refused to surrender the right to issue *lettres de marque;* we asserted that for a nation which could not afford or did not care to build a standing navy of battleships, "privateering" was a legitimate defense, the natural weapon of the peaceable and poor.

Our interest in maritime matters was slight in those decades; we had no navy to speak of and no intention of building one. The Civil War called the attention of our people once more to the problems of the sea. The Federal Government closed the ports of the seceding states by decree, and as fast as it could develop a navy, attempted to institute what had been defined by the Declaration of Paris as "an effective blockade," the effectiveness of which, however, was threatened by the fact that the British had island colonies close to the Confederate coast. International law, as understood in those days, recognized no belligerent right which would authorize us to interfere with commerce between British ports, but, taking up the old doctrine of British prize courts of "continuous voyage and ultimate destination," we employed it to suit our purpose. Without this new interpretation of that old doctrine, our navy would have had no way of preventing British traders from shipping goods ordered by the Confederate army to the Bahamas, and thence from running them over to the mainland in small boats amid reefs where our warships could not follow. It was a case of necessity distorting an old "law" beyond the recognition of its author.

As this is the outstanding case in which we have departed from our traditional policy of protecting neutral rights against the encroachments of belligerents, it is well to recall the frame of mind of official Washington at that time; it will make more intelligible for us the frame of mind which developed in London in 1914. It was the heat of war; it was a crisis in which national life seemed

at stake. Every shipment of supplies which reached the forces under Lee meant the prolongation of the struggle, more boys sent to death, more fraternal blood spilled; in such circumstances, it seemed less than human to dispute over the niceties of the law or to look far into the future. Then the government at Washington thought that winning the war was more important than scrupulous respect for old precedents, and did not worry about the petard which was to hoist our own commerce half a century later, when the British Government took this American interpretation of "continuous voyage" and by re-interpretation shaped it to their purposes and our disadvantage.

National interest in maritime matters lapsed again after the Civil War; locomotives were more important than steamships. The old discussion was revived in government circles by The Hague conferences, the attempt to create an international prize court, and the Conference of London in 1908-1909 which sought to codify the laws of the sea.[1]

The main contention of the American Government in this long dispute, clearly shown in the instructions to its delegates at the Conference of London, has been that the rules of sea warfare shall be determined by common consent, that the rights of neutrals shall be defined in the cool atmosphere of peace and shall not be arbitrarily altered by belligerents in the heat of war. From time to time we have argued for or against certain rules; once, indeed, we argued for privateering; but, although we made an exception for our own benefit in the Civil War, our basic argument has always been that the rights of belligerents and neutrals should be established in times of peace, that when war is declared neutral traders should know what rights they possess and not be subjected to the uncertain and capricious edicts of the Power that establishes its supremacy at sea. We have had definite ideas as to what the law should be, but have held, in common with all neutral nations, that any law which could be agreed upon was preferable to the rule of might. At the outbreak of the World War in 1914, nobody could say what was the law of the sea. Foreseeing

[1] See Section I, "American Foreign Policy," Chapter 2, "Traditions," "The Freedom of the Seas."

the confusion and controversies which would arise if the neutrals did not know what rights would be accorded to them, Wilson suggested to the belligerents in a note of August 6, 1914, that they accept the Declaration of London for the duration of the war; unfortunately, since the British sea lords had been strong enough to defeat the Declaration of London in time of peace, there was no chance that they would accept it when war was on.

The British Government replied to the American note on August 27. It was entirely within its rights to refuse or to accept, as the Declaration of London had not been ratified. It was hard to tell whether its reply was a "conditional acceptance" or a "conditional refusal." It agreed to the idea in principle, but reserved the right to make such alterations in practice as the "circumstances" —or its own views of the necessities of war—suggested. The basic American contention that the law of the sea should be a matter of common agreement, and not the dictation of the strongest, was rejected; the neutral world was notified that at sea might made right and that the ruler of the waves would make the "law" to suit his purposes.

The British Government proceeded rapidly to take all meaning out of its conditional acceptance of the Declaration of London. "At an early stage of the war, the doctrine of continuous voyage was applied to conditional as well as to absolute contraband, and the contraband list was extended to include goods, such as cotton, which the Declaration expressly made free." The "Maritime Rights" Order in Council of July, 1916, definitely annulled the conditional acceptance of the Declaration of London.

When the outbreak of the World War forced the British Government to make a decision in this matter, it was not a simple choice. On the one hand was the demand of the Admiralty that the navy should have "a free hand," but all history showed that the granting of this demand meant the hostility, at least the passive resistance, of all of the neutrals. On the other hand was the suggestion of the American Government that a pledge should be given to respect certain rights which the non-combatants claimed, and the acceptance of this suggestion would have meant less opposition from the neutrals. The decision which the British Government

actually made was that it had more to win by ignoring the neutral world and "unchaining" the navy.

As it was, Britain was on the winning side, and no one can say what would have happened under a contrary decision. Most of the neutral nations were small and weak and could make no effective protest. The Netherlands, for instance, under the guns of the British fleet, lived by their sea trade and their distant and unprotected colonies. The Dutch Government, unable to defend its own rights, discreetly appealed to Washington. In general the European neutrals which suffered from the British naval action, not daring to protest vigorously, urged the United States to lead the fight for the maintenance of neutral rights. Unless our government was to abandon the position which it had always maintained, it could not avoid a controversy with the Allies.

Inevitably, in the absence of any agreement on the rules of naval warfare, a neutral in such cases finds itself in controversy with both sides. While it was the Allies which first invaded what we considered our rights at sea, the dispute with the Central Empires, when it arose, was much more serious. The Germans tried to justify their acts as "reprisals" for the violation of international law by the British. This argument might have found some sympathy at Washington if the "reprisals" had been confined to the British, but we could not admit that innocent neutrals should be punished for the sins charged against a belligerent.

In the course of this triangular discussion between Washington, London, and Berlin, the Austro-Hungarian Government addressed to us a note dated June 29, 1915, asking us to put an embargo on the export of arms and munitions. The argument of this note was not based on legal precedents but on moral considerations. It pointed out that, in the existing circumstances, British supremacy at sea closed our markets to the Central Empires and that, although we professed neutrality, we were in fact aiding only one group of belligerents. The American reply of August 12, 1915, to the Austrian note ignored the moral issue. It gave the traditional interpretation of neutrality: complete moral indifference; freedom to trade with both sides; our willingness to supply the Austrian army as freely as those of the Allies if the Austrians

could take delivery. The expediency of such a theory of neutrality as against its legal validity has been questioned: it means, in practice, that the neutral is the economic ally of whatever country rules the waves; it puts a tremendous premium on the control of the seas.

As happened in the Napoleonic wars a century earlier, we became involved in controversies with both groups of belligerents, found it impossible to maintain neutrality, and entered the conflict against the side which had done greater violence to our rights.

As our participation had arisen over maritime controversies, it was inevitable that our attention should be drawn once more to the laws of the seas. What might be described as an official interpretation of "the freedom of the seas" was given by Wilson as the second of his Fourteen Points:

> Absolute freedom of navigation upon the seas, outside of territorial waters, alike in peace and war, except as the seas may be closed in whole or in part by international action for the enforcement of international covenants.

But, as we have seen, the idea antedated the World War and had a meaning quite independent of it. The fundamental contention had always been that the seas are not the private domain of any nation; that they are international and should be ruled, not by the dictation of the most powerful, but by laws agreed to and consented to by the governed; that the rules of naval war should be established in times of peace; that at the outbreak of hostilities the neutral nations should know their acknowledged rights. To be sure, we had acted during the Civil War contrary to this general position; single-handed we had invented and enforced new interpretations of "continuous voyage"; but it was this very danger, the temptation of the belligerent to take advantage of any vagueness in the rules to encroach on the rights of neutrals, which made us argue at The Hague and at the Conference of London for agreement in times of peace on precise and unambiguous laws of war. With this interpretation, the idea of "the freedom of the seas" rallies the sympathetic support of every maritime nation, except the one which, at the moment, happens to be the ruler of the waves.

When Germany, in 1918, recognizing her defeat, appealed to President Wilson for a peace based on the Fourteen Points, there was an exchange of notes between Washington and the Allies in regard to armistice terms; the British Government refused to accept "the freedom of the seas" as a part of the armistice. They had a plausible reason for this position: "the freedom of the seas" was not an issue between victor and vanquished; it had no logical place in a peace conference; it was a matter of grave importance which would require long and careful preparation, and to achieve peace as quickly as possible was desirable. The published evidence has not yet disclosed the discussions which resulted in the dropping of this point from the armistice and the Treaty.

In an interview with the newspaper men at Paris, Wilson, in answer to a question, said that the American objective had been gained by another method: when the Covenant of the League of Nations had gone into effect, the old concepts of belligerency and neutrality would lose their meaning; never again would there be a war in the old sense; all member states would be belligerents against a Covenant-breaking nation and this question of neutral rights would therefore disappear with the abolition of neutrality. This explanation was overoptimistic. The Covenant, even if all nations accepted it, does not rule out all chance of war; but the general acceptance of the Covenant would greatly diminish the chances that the old controversy over neutral rights would again be revived.

There was another reason why the old issue seemed less important from the American point of view at the time of the Peace Conference. We had begun to build up a great navy of our own as part of our contribution to the war against Germany, and Great Britain would never have such indisputable control of the sea as she had had before. It was not likely that the British Government would treat our protests so cavalierly if any "next war" should occur; in order to assure respect for what a country considers its maritime rights as a neutral, it is not necessary to win command of the sea, it is sufficient to have that balance of power which, if thrown into the scale, would prevent either belligerent from establishing supremacy.

Our controversy with the British over the rights of neutrals in

naval war is so old, it has so often been acute, it has so effectively been brought to the front by the failure of the Three Power Conference, that it constitutes one of our major problems of international relations. It is more than a routine affair of the Navy Department and the Admiralty, of the Department of State and the Foreign Office: it is a problem of public opinion in both countries. Unless this controversy is liquidated, it is idle to talk of the reduction of naval armaments.

The problem of disarmament is complex; it is difficult to separate one phase from the others and impossible to isolate one aspect as the corner stone of the structure of the arch. If America is to contribute to the solution of the problem, we must address ourselves to the old controversy with Britain over the rights of neutrals and belligerents at sea; this is not a problem in naval technique but one which demands the highest form of statesmanship.

AMERICAN AND BRITISH INTERESTS AT SEA

THAT the naval policies of nations must differ, that there is no common and absolute standard by which it is possible to determine what is "needful" for national defense, becomes evident upon a comparison of the maritime interests of the British Empire and the United States. Geographically, historically, economically, and even from the standpoint of political constitution, the problems are incommensurable.

The shores of the United States under present conditions of armaments are relatively free from overseas attack. The progress of invention in air transportation makes such an attack for raiding purposes conceivable, but compared to England our coast towns are secure. War has never been forced upon us by the threat of invasion. Despite the reluctance of the generals and admirals to admit any distinction between "offensive" and "defensive" armaments, it is possible for us to build up coast defense—land, air, and sea forces—which would not menace any trans-oceanic power.

The moment we enlarge the problem from the defense of our

continental shores to the defense of our overseas possessions, the situation changes.

If we expand our "coast defenses" to protect our nearer possessions in the Caribbean—it would be only a slight increase—they cease to be wholly defensive; we cannot control the Caribbean by force, assure our communications to the Panama Canal and defense of it against all comers, without threatening the West Indian colonies of England, France, and Holland, without holding at our mercy the commerce of the Central American republics of Colombia and Venezuela. Yet hardly a voice would be raised anywhere in protest at our armaments if we confined ourselves to the defense of our nearer overseas possessions.

When we come to the defense of our more distant overseas possessions the situation is completely changed. If we build a navy with a cruising radius which would give adequate protection to far away Pacific islands, we shall have a fleet capable of bombarding Auckland, Melbourne, Hong Kong, and Tokio. Even if our motives were pure, *i.e.*, purely defensive, we could not be surprised at the uneasiness which such a building program would excite. The naval defense of Manila demands a great deal more than a fleet that could steam out there unopposed; the fleet that went out would have to be able to fight and sink any warships it met on the way. If we are to have such predominance in the Pacific, without leaving the Atlantic seaboard unprotected, we must plan for the greatest navy afloat. Unless we secure absolute naval supremacy, we shall in the future, as at present, have to rely on diplomacy for the protection of our more distant overseas possessions.

While we at present export and import little more than a tenth of our production and consumption, a relatively small proportion for us, our total production is so great that our tenth is more than the whole of most nations. The total of our overseas trade is an important element in the world's trade and is destined to grow. The protection of this commerce of ours in the seven seas against all contingencies by naval force raises the same question as the defense of our distant possessions; it brings us into controversy with the British. The demand of Mr. Bridgeman, for the British

Admiralty, for tremendous cruiser strength based on the convoy argument is unacceptable. Neither the British navy nor the American will be strong enough to protect its national commerce against all contingencies unless it is strong enough to drive the other's ships—men o' war and merchantmen—from all the seas; we live in a relative world, and the projects of admirals who believe that they are asked to guarantee absolutes lead to anarchy.

We must choose between a navy strong enough to protect our commerce in the English Channel—sheer supremacy—or reach international agreement on the rights of sea trade. The former alternative means a long and bitter struggle for naval supremacy, vastly expensive not only in money but also in dearer things. Whether we won or lost, it might reduce us to impotence, as the Peloponnesian War ruined Athens; it might mean the end of our experiment in democracy, as the Punic wars of the Roman republic were the highway down which marched the Caesars; it might mean the development of democracy *pari passu* with the creation of empire, as in the case of the British Empire.

In this alternative there is no hope of compromise; there cannot be two supremacies.

The other alternative is far from hopeless; there is no inevitable conflict of interests between the British Empire and America in regard to what ought to be the agreed rights of maritime commerce.

We shall not, however, approach an understanding with the British in this matter if we consider only our own interests. As we have a right to demand of them to take into account our history, our hopes, and our dignity, so we must study their point of view. We speak the same language as our English cousins, but use the same words often in a different sense. We have read the Bible in the same sonorous phrases of the King James translation, but in different circumstances. They are an island-folk, seafarers by necessity; we are continental. Out of this contrast between island and continent have grown most of the differences between ourselves and the British.

Every interest that we have on the seas is multiplied many times for them. We export about a tenth of our production; they export

a quarter of theirs. Few of our imports are indispensable; they import more than two-thirds of their food. Their sea-borne commerce, aside from its absolute volume, is relatively vastly more important to them than ours is to us.

The portions of their commonwealth, from the great self-governing Dominions to little islands like St. Helena, are scattered more widely than ours. It is oceanic in far larger measure.

Their navy is important to the British from another point of view which is foreign to us. It is a cohesive force, important in keeping the empire together. Consider New Zealand. It is a white man's island in the Southern mid-Pacific; yet no one of the Dominions is more ardent in its loyalty. New Zealand's contribution in the last war was magnificent because it was purely voluntary. New Zealanders go about the work of peace undisturbed with thoughts of national defense by reason of their reliance on the British navy. There are no more fanatical big navy men in the Admiralty buildings of London than in such distant Dominions; naval supremacy is a large part of what "the Empire" means to them.

As another example, consider the conditions in the Union of South Africa, a small section of "whites" on the edge of a continent of "blacks." There this question of loyalty is a matter of heated dispute. The "flag controversy" would be comic if there were not such grim feeling behind it; full-grown men were recently disputing bitterly whether the new flag of the Union should have more or less than one-sixteenth of its area devoted to the symbol of the Empire. Every "loyalist" speech, every argument for more than one-sixteenth, for continued membership in the British Commonwealth, is based on the supremacy of the navy. How will the Union arrange for its national defense if it cuts away from the Empire? Will the thrifty Boer burghers vote taxation for a South African navy?

However one approaches the problem, it is evident that the sea is a more intimate, more vital interest to the British than it is to us. Just as the Germans used to say: "*Keine Armee, kein Deutschland,*" so the English believe: "No Navy, No Empire."

BRITISH ATTITUDES TOWARD NAVAL POLICY

THAT the British will be as determined as we to protect what they consider to be their interests at sea is evident; but while our interests in this problem have been simple, clear, and, with the exception of the Civil War period, unchanging, British interests at sea have been complex, confused, and sometimes conflicting. Since there has not been unanimity in English opinion as to the nature of their maritime interests or the best way to protect them, their policy has been shifting, inconsistent, and at times irritating in their own body politic as well as to the rest of the world. The "big navy" party in England have not had everything their own way in Parliament; Great Britain has not only the most powerful navy afloat, she has also the biggest fleet of cargo boats, and there is an inherent conflict of interests between the Admiralty and the merchant marine. The interests of these two powerful groups have to a certain extent run parallel when England has been at war, but in the much longer periods when the British Empire has been at peace, the conflict of interests has been apparent.

From 1814 to 1914, with the exception of the short Crimean War, the British Empire was neutral in every European conflict. Inevitably the great shipping interests were paramount, and the trend of British thought in regard to sea law during this long period of peace was toward emphasizing the "rights of neutral trade." This was made manifest during the Civil War. In international law that was not a war at all; it was a rebellion, and the Federal Government had as much right to close the Southern ports as the British Government had to stop shipments of arms to Ireland; but during the Civil War, because British merchants wished to trade with the Confederacy, there was a recognition of the belligerency of the South to justify a claim of right to neutral trade with both sides.

An even more striking example of this neutrality attitude of the British, in sharp contrast to the action they took in the World War, was furnished by an incident of the Russo-Japanese war. Russia put rice on the contraband list; Great Britain joined with

America in protest against banning a necessary civilian foodstuff, and Russia was forced to recede from her position.

When British shipowners had acquired the habit of neutrality in the century after the fall of Napoleon, they resented the risk of being dragged before a foreign prize court without hope of appeal, and the British Government, then Liberal, joined with us in promoting at The Hague the creation of an international prize court, to which appeals could be taken from the decisions of national prize courts. Maritime countries which expect to be neutral have need of this reform. Unless there is an international court of appeals in prize cases, there can be no international law of naval warfare. The traditional system of national prize courts means that the belligerent—by definition, not in fact, in a judicial frame of mind—will be complainant, judge, and executioner.[2]

No sooner had this convention been signed at The Hague than the question arose: what law will it execute? The Conference of London met in December, 1908, at the invitation of Sir Edward Grey, to see if it were possible to reach a general accord on a code of law for naval warfare. The instructions issued to the British delegates by Sir Edward Grey gave a clear statement of the interests of the British merchant marine when neutral as against the interests of the navy when at war. At The Hague Conference, on July 24, 1907, Lord Reay had stated that the British delegation held that "contraband should be abolished and neutral commerce restored to the freedom it requires." It was not possible to obtain agreement at London on so sweeping an alteration in the ideas of naval warfare, but the British argued for a short definite list of "absolute contraband" and for a long and much more general "free list"; among other things which with British approval were put on the free list were cotton, wool, rubber, and metallic ores.

Paragraph 2 of Article 29 of the Declaration is interesting:

Ne peuvent non plus être considérés comme contrebande de guerre:

* * * * *

2. Les objets et matériaux destinés à l'usage de navire où ils sont

[2] See *British Blue Book.* Miscellaneous. No. 4 (1909). Also, *Proceedings of Second Hague Conference.*

trouvés, ainsi qu'à l'usage de l'équipage et des passagers de ce navire pendant la traversée.

This was the translation into French of the old dictum of English prize courts that nothing could be declared contraband which was "needful for the working of the ship or the comfort of the crew." This was the point at issue in the "bunker coal cases" during the World War: by Order in Council the British declared that "bunker coal" was contraband; their cruisers held up neutral ships on the high seas and sent them into British ports; if the ships had coaled in an enemy port, their bunkers were stripped. And so they lay idle, running up demurrage charges until they gave in and filled their bunkers with British coal, and the British would not even sell coal to a neutral ship unless its owners signed an agreement not to be neutral. This was not a case of simply refusing to recognize the (unratified) Declaration of London; in treating "bunker coal," certainly necessary for the "working of the ship," as contraband, the British violated their own prize court precedents and abandoned the tradition of fair play which had been established by Lord Stowell in the days of Napoleon. Yet it should be remembered that when we entered the war, we fully accepted the British practice as to "bunker coal," in order to coerce the neutrals.

On fundamentals the American and British delegates stood shoulder to shoulder in the Conference of London, and made it evident that there is no profound divergence of interest between the two countries in regard to sea law when they approach the problem from the standpoint of neutrality.

The resulting Declaration of London, signed in the spring of 1909, was of course a compromise, but on the whole it was a triumph of the party of neutrality. It satisfied the main American contentions in every point, it was welcomed by all the less powerful seafaring nations, and it was favorable to the trading interests, shipowners, and exporters of England as long as England should be at peace.

But the ratification of the Declaration of London was defeated in the House of Lords by the argument that Great Britain could

not gamble on always being a neutral; the Declaration of London, if adopted, would limit, to a degree that was difficult to estimate, the action of the navy if the Empire should become belligerent. But it was also true that the adoption of this code of sea law would limit, to a degree equally hard to estimate, the naval threat of Britain's enemies to her importation of food and raw materials. The opposition to the Declaration was based on the assumption that British naval superiority was so great that they could protect their own sea communications and cut those of their enemy; this assumption, which overlooked the possibilities of the submarine, was not wholly justified by the events of the World War.

These two opposing attitudes in Great Britain toward naval policy have never been reconciled; they explain the inconsistencies with which the British Government is reproached. On one hand are the interests centered in sea trade, shipbuilders, and owners, importers and exporters; it is a rough approximation to say that in the past they have been represented by the Liberal Party; their point of view is summarized in Sir Edward Grey's instructions to the British delegates to the Conference of London; their plans are based on the assumption that Great Britain is normally at peace. Opposed to them is an influence much harder to define. Its spokesmen are the admirals and the Navy League; its supporters in Parliament are generally on the Conservative side. Recently Lord Webster Wemyss, who commanded the British fleet at the Dardanelles and who was for a time First Sea Lord, proposed in the House of Lords that Great Britain should denounce the Declaration of Paris of 1856. He is reported as saying:

> Every Englishman knows in a general way that his safety and even the national existence depend entirely on the navy but he has the vaguest idea what a fleet does. Its chief power lies not in guns or torpedoes, but in the immemorial right of all belligerents to suppress entirely all sea-borne supplies of enemies on which the enemies' continued resistance must depend.

It was this point of view that rallied an indecisive majority of the Lords to defeat the ratification of the Declaration of London in 1909.

The outbreak of the World War seemed to give the English opponents of the Declaration of London full justification; "Thank God," they said, "those Liberals did not succeed in crippling our navy." But even without the hampering of the Declaration of London, the British navy found it not so easy to end the war by a naval blockade as they had expected; there will have to be thorough study of the technique and effect of the blockade before anyone will have a right to a definite opinion of how much and in what sense the situation would have been changed if the Declaration of London had been in effect.

The absence of any code of sea law left the British navy a free hand to do what they wished; but in spite of this freedom, they found that there were many things they had wished to do, things they had expected and more or less promised to do, that they could not do. Such a sword is two-edged. In 1914 few persons in the British Admiralty thought that they would wish the United States to enter the war, so a controversy with us which might prevent and would certainly retard our entry on their side did not seem important; few Admiralty officials dreamed of the effectiveness of the submarine as a commerce raider. The British navy found that it was not a simple matter to protect by force the import of food as it would have been protected in law if the Declaration of London had been in force. The calculation of the debit and credit of the two policies is a difficult task which has not yet been adequately attempted. The archives of no one country will tell all of the story. At what time and in regard to what materials did the economic pressure of the Allies cause the Central Empires most concern? Before the war, Germany imported raw copper from America and worked it up in her factories for her own use and for export, furnishing Russia with practically all her copper utensils. Contrary to the spirit of the Declaration of London, the Allies banned copper; Germany of course stopped all her export to Russia. The Swedes then tried to build up an industry to supply Russia's and Germany's needs, and placed large orders for raw copper in America. But the British stopped this import, knowing that it was going to their enemy, as well as to Russia. Russia was thus penalized by a policy aimed at Germany. Which country

suffered more and first from the lack of copper, field telephone wire, and shell rings, the enemy or the ally? The general problem warrants careful study in all its ramifications, both by those who advocated and by those who opposed the codification of the laws of naval warfare in 1909, for it goes to the root of the Anglo-American naval controversy.

THE HEART OF THE MATTER

If the Declaration of London had been ratified by both countries this old dispute would have ended. It raised its head again threateningly at the unfortunate Three Power Conference. It is the excuse offered by all naval authorities for the immense building programs they advocate. On both sides of the Atlantic the great majority of people would rather have it thought out than fought out. What has the World War taught us in the matter? Do the arguments which defeated the Declaration of London in 1909 still hold against any modern attempt to settle this dispute by conference and agreement?

Nothing has happened in these last twenty years to alter the American standpoint. Although our overseas trade is large and grows apace, we still find it more economical to entrust a good deal of it to foreign bottoms. Our efforts to build up a great and self-sufficient merchant marine have not as yet been successful, and without a great reserve of merchantmen to draw on it is difficult to develop a navy strong enough to rule the waves. So, as in the past, like all nations which go down to the sea in ships but do not rule the waves, we have an undivided opinion in favor of defining the rights of neutrals and belligerents in naval warfare.

But the events of the World War presented a number of new aspects of the old problem to the British.

(1) No English shipowner or exporter can study the precedents set up by his country during the last war without dismay. Never have Orders in Council gone so far in denying any rights to neutral trade.

The judges of the British prize courts made a brave fight for the old concept that international law transcends domestic legis-

lation; they refused—in the Zamora Case—to recognize Orders in Council which violated accepted dogmas of international law; but they were powerless before acts of Parliament. In opposing the Declaration of London, the Sea Lords said, "We cannot gamble on always being neutral." The practice established between 1914 and 1918 appears to be founded on a bet that Britain will always be a belligerent; if she should be a neutral in another war, the precedents established by her prize courts in the World War will be disastrous to her overseas trade.

There is a grim humor in the way that our Civil War interpretation of the "doctrine of continuous voyage" was turned against us by the British Admiralty in the World War. It had undoubtedly helped the Federal Government in the 'sixties to make its blockade of the Confederacy successful; and having ourselves developed this doctrine, we were in a weak position to protest against its use and extension by the British. The shoe, however, is now on the other foot; the British, their minds concentrated on winning the last war, established precedents which will rob their own trade of all protection in any future war in which they are neutral.

Suppose a war in the Near East between Greece and Turkey; citing British precedents, the Greek navy would be justified in ordering into a Greek port for leisurely search every British merchantman that passed Cape Matapan on its way through the Suez Canal. Suppose a war between ourselves and any South American republic; on the precedents established by Great Britain in the war against Germany, we should be justified in interrupting all British trade with any country possessing rail communication with our enemy.

To the British subject, whose interests are engaged in peaceful trade, who hopes that his country will be neutral in the next war, the new developments of international law which his government sponsored in the last war are terrifying.

(2) There has been a profound change in the armaments of the world since 1909. Most of the arguments used for and against the Declaration of London at that time were based on the precedents used in the palmy days of sailing ships. Besides the invention of the steamship and the railroad, which profoundly alter the

problem of naval blockade, the last war demonstrated the arrival of a new and formidable weapon—the submarine. We shall have to revise our ideas of what constitutes an "effective blockade," when cargo ships can dive under the patrolling fleet; we shall have to revise our definitions of "search" and "seizure." The British will have to alter their strategical plans for keeping open the sea routes for the importation of food. They may not agree with us as to what sea law should be, but they cannot shut their eyes to the fact that the submarine has so altered the problem that some revision is necessary.

We can hardly be content with demonstrated fact, we must look a little into the future; the progress in the development of aircraft must also be considered. We cannot foretell exactly what rôle the aerial weapon will play in the next war, but it will be important. As an instrument in blockading a vulnerable coast like that of the British Isles, aircraft may prove not only cheaper in money and men than submarines but also more effective.

The value which men like Admiral Mahan gave to surface sea power has been definitely lessened by the development of instruments for sea fighting under and over the waves. Neither as an instrument for blockading the enemy nor for defense against the enemy's effort to blockade is the old-fashioned navy on which British sea power has depended so effective as it used to be. "Giving the navy a free hand"—the cry of those in England who opposed the Declaration of London—does not mean what it did in 1909. It may be that the British can develop a submarine force and an aviation power which will give them the same supremacy below and above the waves that they have had on the surface, but the decisions of Lord Stowell's prize court in 1810 will have little bearing on the situation. The problem has changed so completely that the arguments of the Conference of London now have lost much of their meaning.

(3) There has been as much change in the methods of bringing economic pressure to bear on the enemy as there has been in the weapons of the sea. The arguments of the Conference of London and of the older discussion at Paris (1856) on the nature of blockade are out of date; in those days blockade was solely a naval

matter; but in the World War the rôle of the warships was only part of it.

There is general agreement that the economic pressure exerted on Germany by her enemies was a considerable element in her defeat. Discussion as to which arm contributed more to victory is as futile as argument on the question which nation won the war, but even from soldiers, who might be expected to overstate the rôle of land forces, great credit is given to the blockade; added to the actual want of necessities operated the psychological factor of isolation to undermine the morale of the people.

The navies of the Allies contributed greatly to this economic pressure, but they cannot claim credit for all of it. Besides what Lord Stowell and the delegates to the Conference of London would have recognized as a naval blockade, there was a highly developed economic and financial organization, which operated against the enemy—not at sea, but in the offices of merchants and bankers and in governmental bureaus. "Enemy Trading Acts," "black lists," various commercial agreements such as the British purchase and destruction of the Norwegian herring catch to prevent its sale to Germany, collaborated with the navy and supplemented its work in bringing pressure to bear on Germany. Of course all these methods of economic warfare, which might be called "boycott" as distinct from "naval blockade," had nothing to do with the Declaration of London and could be employed as effectively if the Declaration had been ratified. As far as the British are themselves concerned, it is impossible to strike any balance as to which of these methods, blockade or boycott, did the more harm to their enemies.

We have an opportunity to separate the two more sharply when we consider the war action of the United States. German opinion is agreed that the economic pressure increased tremendously after we entered the war, yet we contributed only slightly to the naval blockade, and the British blockading squadrons were not noticeably strengthened by the warships we sent over. Our contribution to the economic pressure on Germany was overwhelmingly by the method of boycott; the work of the War Trade Board was far

more effective than the addition of our naval forces to those of the Allies.

(4) The political map of the world has been evolving for a hundred years in the direction of the decentralization of sea power. A far-sighted statesman could have seen this in 1909, when the Declaration was under discussion; it is evident to all today.

After the defeat of Napoleon, Britain was not only stronger at sea than any of her rivals, but supreme over all combined. By the middle of the last century that supremacy was becoming expensive; soon the Admiralty had to content themselves with a three-Power standard; by the turn of the century they were reconciled to a two-Power standard: the Admiralty turned over to the Foreign Office the task of seeing to it that no combinations were formed against the Empire of more than two strong navies. But "isolation," even at that ratio, proved too expensive; once more the Foreign Office took up some of the burden, and, by arranging an alliance with Japan and an entente and naval correspondence with France, relieved the pressure on the Admiralty and made it possible for them to maintain a fleet in the North Sea superior to the growing German fleet.

That the World War has completely changed this situation is illustrated by occasionally strained relations between London and Paris, the lapse of the Anglo-Japanese Alliance, the influence on naval strategy of the development of "the cheap weapons" (aircraft and submarines) by nations which formerly did not count in the naval balance, and by the growth of the American navy.

The kind of naval supremacy that the opponents of the Declaration of London were talking about in 1909 has been made impossible partly by the development of new weapons and partly by the changed political situation.

(5) The Covenant of the League of Nations has laid obligations not only on the imperial government at London but on the governments of all of the Dominions. Although from the constitutional point of view there is some uncertainty over the meaning of phrases in the Covenant which the proposed Protocol of 1924 was intended to clarify, the British Commonwealth is pledged (save in a few exceptional and remote cases) not to go to war on

its own initiative, and not to remain neutral in a conflict between the League and a Covenant-breaking nation. In guaranteeing the accords of Locarno, Great Britain has formally undertaken to come with all her resources to the aid of the victim of aggression in the Rhine area.

If these engagements mean anything—and similar engagements have been accepted by all of the members of the League—it means that the old problem of belligerency or neutrality has been profoundly changed. States which have not joined the League may preserve a traditional attitude in the matter, but for the member states the juridical bases of war have been completely altered. The change is so revolutionary that a generation or more must pass before it can be assimilated by the public mind.

Except in the case of the much discussed "loopholes" in the Covenant, which the Protocol was intended to close, no member of the League of Nations can use force against another nation without violating its covenant, except in international police action against an outlaw nation condemned by an international tribunal as a disturber of the peace.

For the members of the League there is now a constitutional distinction between "private" and "public" war. Private war has been renounced; public war has been made obligatory. Except for the "loophole" cases there is no juridical basis left for the old idea of neutrality. The situation is similar to that ascribed by Plutarch to the old Greek republics in which it was compulsory for all citizens to take sides in civil strife; neutrality, when the fate of "the City" was at stake, was regarded as immoral. So the League tends to consider the world as a civic unit and any war a rebellion, a struggle between constituted authority and the seditious.

The decision of the American Government not to enter the League blighted Wilson's hope that neutrality would be abolished on the advent of the Covenant; by staying out we are still free to imagine ourselves as neutral in a future war, and do not feel the necessity to think out the implications of this modern doctrine, the distinction between public and private war, the difference between international duelling and international police action.

If two nations fall out and come to blows over some private dispute in the old way, neutrals might see no moral objection to supplying both sides with equipment for intensifying and prolonging the conflict. But, if, on the contrary, other nations voluntarily enter into engagements to renounce private war and work out processes of conciliation and a juristic system, and if one nation breaks out of the family of nations and brings upon itself the ban of outlawry and the other nations unite to defend the law and punish the disturber, then the resulting hostilities would be as different from the wars on which our doctrines of neutrality are based as aircraft are from the frigates which constituted the basis of Lord Stowell's decisions. International police action, if it ever takes place, cannot be assimilated to old-fashioned belligerency.

When Englishmen were discussing the Declaration of London in 1909, this new distinction between public and private war had not been invented. In those days the Empire had not entered into a covenant "to achieve international peace and security"; it had not given its "acceptance of obligations not to resort to war." It had then acknowledged no limitation on its right to go to war at any time and in any manner. It was juridically justified in considering the probability of being a belligerent in a private war and planning for it.

To discuss whether there is any possibility of Great Britain ever going to war again is futile; such a possibility exists, even without violation of existing pledges. But the probability of the British navy again being used in a private war, the probability of Great Britain again being a belligerent or a neutral in the old sense, has been greatly reduced. No Englishman who believes that his country will redeem its pledges can maintain that the arguments used against the ratification of the Declaration of London have the same force now as they had in 1909.

All of these developments between the Conference of London and the Three Power Conference—the certainty that the great expansion of the rights of belligerents in naval war would be used against Great Britain if she were neutral in a future war; the progress of invention in armaments, which lessens the importance

of "surface control"; the discovery of new and more effective methods of boycott; the altered political map; the new obligations of the Empire under the Covenant and the Locarno pacts—all these combine to make the British more desirous to end the old naval controversy with us. These developments, by lessening the value of the stake threatened by the Declaration of London, make it easier to reach an accord. The new aspects of the situation have not escaped the attention of the British and are now being openly discussed; the process takes time, for traditional patterns of thought change slowly.

CHAPTER NINE

SUGGESTIONS FOR AN ANGLO-AMERICAN NAVAL UNDERSTANDING

WITHOUT some preliminary discussion of the problem of the seas between Washington and London, some understanding of each other's difficulties and obligations, some accord on the fundamentals of naval policy, a future conference would be as futile as the conference of 1927. Other countries are interested in the problem and should be considered if there is to be any hope of a solution, but the British and American navies dominate the situation so completely that the final responsibility rests on them. There are three possibilities of the future, (1) continued jealousy and friction, (2) Anglo-American copartnership, joint dictatorship of the seas for the greater glory of the English-speaking world, (3) freedom of the seas. In the first case, there would be no hope of peace at sea, no prospect of naval disarmament. In the second case, all the maritime countries excluded from the Anglo-American "trust" would go in heavily for the "cheap weapons" of sea warfare, aircraft and submarines. In the third case, all the seafaring countries would quickly and joyfully adhere to such a *régime* supported by the United States and Great Britain.

These three possibilities and all the permutations and combinations of their elements have been the subject of endless discussion in the press of the world. Judged by the amount of newspaper space devoted to it, the failure of the Three Power Conference was one of the major political events of 1927; the editorial writers of even such land-locked countries as Czechoslovakia and Switzerland have discussed the causes of the fiasco, the probabilities of the future, and the effect on the policies of their country.

Nowhere has there been more space given to the affair, more searching analysis of the problem, more proposals for a solution, than in the British Empire. Disappointment at the failure of the conference, concern at the idea of Anglo-American dissension, and a searching into the future, are exhibited generally. One writer, for

example, suggests the following text as the base of a possible understanding:

(1) England and America agree not to molest each other's commerce on the high seas in the event of their ever being at war with each other.

(2) The whole of the North Atlantic and adjacent waters from the American coast to the east coast of England is hereby declared a free sea, in which their non-contraband commerce is exempt from molestation by belligerent craft. England and America will regard such molestation by any belligerent Power as an unfriendly act, and will concert measures to prevent its commission.

The significance of this proposal is that it indicates that public attention in England is being called to the root of the Anglo-American controversy. The proposal in this form would hardly be acceptable in America and would certainly be severely criticized by other maritime countries, but the state of mind it indicates is welcome. Other proposals, ranging from an Anglo-American alliance to such complete revision of the ideas of naval warfare as would limit the function of warships to fighting other warships and would free merchantmen from any naval interference, have been common in the British press.

Compared to the seriousness with which this problem has been discussed in the British press, the attitude of American newspapers has been on the whole good-natured and somewhat frivolous. A few newspapers, some of large circulation, have joined the big navy chorus, but rarely has any organized propaganda in the United States sputtered out with so little effect. Members of Congress who first announced themselves as advocates of Secretary Wilbur's naval program and who even wished to fix a time limit for its completion, finding no support among their constituents, have turned their attention to what they hope to be more popular expenditures. Though there has not been so serious a discussion of the basic controversy in our press as in that of England, it is evident that the idea of a race for naval supremacy is as unpopular on one side of the Atlantic as on the other.

Yet the problem will not solve itself; the controversy will flare up again and again unless it is faced and resolved; even if it drops

out of view for a while, it will be recalled in 1931 when the Washington Naval Treaty expires and the five signatory Powers are under obligation to re-convene.

A comparison of a large number of "proposals," a study of the history of the controversy and the current discussions, indicate that the divergence of interests is not so great as it once was and that the elements of the problem are not numerous. The prime *desiderata* of the two countries can be stated in short space.

(1) Unless there is a complete and unforeseeable change in American opinion, we shall continue in the future, as in the past, to demand the freedom of the seas. Our contention has always been that the code of the sea should be a matter of agreement among the maritime nations and not a matter of the might of the strongest navy. International lawyers might dispute among themselves over the definitions of "blockade," "contraband," "unneutral service," "continuous voyage," and the like, but the popular demand is for a definition of "contraband" and the greatest freedom for neutral commerce in "non-contraband."

Of course any such rule would have to work both ways; Americans who believe that our destiny points to war will be opposed to accepting any limitations in "the freedom of action" of our naval forces, but the great mass of our people would favor securing tangible gains for the periods when we are sure to be at peace, rather than sacrifice them for hypothetical advantages in periods when we may be at war. Our interests overwhelmingly demand a *régime* on the seas based on the kind of law that comes from agreement and treaty. The actual terms of the code are not so important as a definite understanding of what the rules are. If the misfortune of war falls again on the seas, neutral trade can accommodate itself to almost any set of laws, but that the laws should be altered at will by the might of the strongest is a complete denial of freedom.

(2) British opinion is not so clear cut or so nearly unanimous. There is a strong Admiralty tradition, based on British naval supremacy, which relies on sufficient power to enforce one set of rules when Britain is neutral and an opposite set when Britain is belligerent. As this position does not appeal to reason, it can be maintained only by superior force.

The vital interest of the British Isles is in uninterrupted import and export. The navy was not so effective in the last war in protecting the sea lanes, in assuring the import of food and raw materials, or in reducing the enemy, as the Admiralty tradition implied that it would be. The progress of invention in submarine and aircraft has made it doubtful whether the Admiralty could even come as near to fulfilling their promises in any future war as they did in the last war.

Furthermore, even if Great Britain were prepared to seek protection for her food supply through an agreement on what we call the freedom of the seas, instead of relying on the Admiralty, she could hardly do so because of her obligations under the Covenant of the League and the Treaty of Locarno. In case of a public war —that is, international police action to enforce respect for some international treaty,—the burden of naval blockade would fall on the British. It is therefore of the utmost importance for the government of the United Kingdom and all of the self-governing Dominions to secure our recognition of their obligations in a public war.

Consider the situation created by the Locarno treaty. France and Germany agreed to renounce war in the Rhineland and to submit any controversy which may arise to some organ for the pacific settlement of international disputes. England guaranteed the treaty. If either France or Germany violates her pledges and, refusing to accept any peaceful settlement, marches an army across the Rhine, Great Britain is pledged to come to the aid of the victim of the attack. What would the United States do? We were not asked to make any such pledge as those signed at Locarno; we were not asked to guarantee them; but should we ignore them? Should we, on the plea of our traditional rights as a neutral, insist on furnishing both sides with munitions and food supplies? Great Britain needs to know the answer. Must she have a navy strong enough to blockade the nation which, violating its pledge, becomes an aggressor? Or must she have a navy which is also strong enough to prevent us from breaking the police blockade? The difference is portentous.

Study of these different proposals from both sides of the At-

lantic shows that the fundamental aspects of this old Anglo-American naval controversy are relatively simple and that, if there were a real spirit of accommodation between the two governments, it would be necessary to come to agreement on only two bases. The details would not be difficult to arrange.

Base I. The contracting parties agree not to interfere with neutral non-contraband commerce at sea in case of a private war.

Base II. The contracting parties will not insist on the traditional rights of neutral trade in case of a public war.

The first base would be a British concession in giving up a right which they have always insisted upon in the event of private war. It would not be a great concession for them, since they have already accepted sweeping obligations not to become involved in such a war. For us this article would mean the gain of almost everything we have hitherto demanded of the British. This base would become operative if the League of Nations should fail in its purpose, which would bring on the kind of war from which all our ideas of belligerency and neutrality have evolved.

The second base would be an American concession. It would be a pledge on our part not to be the economic ally of a nation which, by violating its freely accepted agreements, had brought upon itself international police action. It would mean that if this new kind of conflict broke out, no nation could rely on us to help it out of trouble brought on itself by the violation of its treaties. This base would become operative if the elaborate machinery which has been created for the pacific settlement of international disputes should fail in its purpose, and some nation, defying international public opinion, were declared an aggressor.

Such an article would not add in any way to the obligations which the British Empire has already accepted; for us it would put into treaty form the idea embodied in the Burton and Capper resolutions now before Congress. Instead of being a unilateral declaration, however, it would be a treaty of obligation, through which we should receive satisfaction for our old demand for the freedom of the seas.

If these bases were accepted by England and America, it would of course be necessary for the diplomats to deal with detail in draft-

ing a treaty. It would be necessary to make a sharp definition of "contraband" and to arrange for a periodic revision of the "list," to define with precision the distinction between "private" and "public" war; and it would be to the interest of both parties to add an article undertaking to use their influence in persuading other maritime nations to adhere to the agreement. A general naval conference might then be called not on disarmament, but on sea law. Such an Anglo-American accord, even if not at once accepted by other nations, would immediately affect the naval strategy of both countries so strongly that they could at once revise their naval programs downward.

Such an Anglo-American accord in regard to the laws of the sea would be welcomed by all other maritime Powers. To such countries as Holland, which live by the sea but have relatively small navies, it would be the realization of a security for which they have hardly dared to hope. It would profoundly alter the strategical problems of France and Italy and markedly reduce the incentive for naval expansion in the Mediterranean. And the benefit to Japan, an island empire depending on importation for food and raw material, would be direct and immense.

The pledge of the United States not to attempt to break an international police blockade would greatly facilitate and encourage the movement for the non-military security pacts on which the land disarmament of Europe rests, and would lead to hope for the reduction of armies as well as navies. A conference on the limitation and reduction of naval armaments, if based on a preliminary understanding of this kind, would be a move in the direction of general disarmament.

At present there is uncertainty as to the purpose of the United States in this matter. The proposal of the General Board of the Navy of an $800,000,000 building program on the heels of the failure of the Three Power Conference was interpreted abroad as the announcement of a determination to wrest the rule of the sea from the British. Continental political writers, having previously believed in an effective, if unacknowledged, Anglo-American entente, swung to the opposite and equally exaggerated belief in "an

irrepressible conflict," and discussed Anglo-American relations in the terms of Carthage and Rome.

The idea of an attempt by the United States to displace the British dictatorship at sea disturbs European thought, for no one can foresee where the sparks of such a conflagration would fall. While the maritime nations of Europe have suffered the British dictatorship too long and too recently to have any affection for it, they have no reason to believe that, if we supplanted the British in that domination, we should be in any way preferable. But if the United States should come out sincerely for the freedom of the seas, for the abolition of dictatorship, for a *régime* of agreed "rights" as against might, the majority opinion of Europe would probably be on our side.

If the American Government proposed to discuss the naval problem on the bases of (1) the freedom of the seas in private war and (2) recognition of public war or international police action, it could count on support from a considerable body of opinion within the British Empire. It could probably count on effective support at once from the self-governing Dominions, and while time would be needed for opinion in the British Isles to consider the proposal soberly, to balance the debits and credits—for such questions of maritime policy are the most vital that British opinion must answer—it seems probable that it would be found that the proposal would meet the needs of the British people as happily as it would meet ours.

After all, what one thinks of the texts of the various proposals for an Anglo-American accord matters relatively little; the problem can be stated in different terms, and the difficulties could be met by a dozen different verbal contrivances, given an effort at mutual understanding and a friendly desire for accord. But it is obvious that if the United States is to contribute to this movement for the reduction of armaments, there must be discussions with the British on broader bases than those of the agenda of the Three Power Conference. Without some Anglo-American accord in maritime policy, there is no reasonable hope for naval reduction; and, if Britain and America cannot agree to limit themselves at sea, there is no reason to argue that the land Powers of Europe should disarm.

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