

(April 3, 1933)

War Debts and Recovery

BY PROF. W. Y. ELLIOTT.

PRESIDENT CHALMERS:—To-day it is our great pleasure and privilege to greet an old friend, Dr. W. Y. Elliott, head of the department of government at Harvard University. Dr. Elliott has given a number of addresses in Canada and always in his addresses he has shown himself to be a true and valued friend not only of Canada but of the British Empire. His understanding of British problems and British psychology I imagine dates back primarily to the time when he was a Rhodes scholar from the United States at Oxford. He is, I think, a living monument to the far-sighted genius of Cecil Rhodes. There is an old saying, "If you send an American to London as Ambassador to the Court of St. James he returns to his native land more British than the British themselves. I think that is an exaggeration, but we do know when you have an intelligent and educated American understanding the British viewpoint, or when you have an intelligent and educated Britisher understanding the American psychology, you have the most useful citizen. Professor Elliott to-day will discuss the subject of the War Debts and he will deal with the conversations recently going and that will continue to go on between Great Britain and the United States on the war debts, and will discuss this as a prelude to the World Economic Conference. I have the greatest pleasure in asking Dr. Elliott to address you.

PROFESSOR ELLIOTT:—Mr. Chairman and gentlemen, in the altogether too kind words of your chairman in introducing me I seem to remember the expression on a monument to the wisdom of the late Cecil Rhodes. "Living

monument" somewhat helps the situation but even a living monument presumably has the function of maintaining a dignified silence.

I wish the times were such that my mission here to-day would be to pronounce a benediction and nothing else, but unfortunately the world is not in such a situation as to permit me that luxury. I am coming here not as an Anglophile, although I profess my friendship for the English began at my birth and because of my antecedents, and was strengthened before I went to Oxford by having served in a division which was brigaded with the British troops, and the Dominion troops beside them. I do not come here with any great professions, because really they would be idle. We know we speak as friends about these matters and in an atmosphere of friendship, and that the subjects under discussion are going to require that that atmosphere be maintained. But it is idle to ignore the fact that there are the gravest difficulties in the way of conversations which are now proceeding or are about to begin once more between the United States and the Government of the United Kingdom. It would be equally idle to ignore that upon the success of those conversations depends in large part the probable success of the Economic Conference of the entire world which it is hoped is to follow. Therefore, I propose to address you as Canadians and as friends in this atmosphere, at a time when quite clearly steps are to be taken which will profoundly affect the course that, not only your nation and my nation, but the world will take in the next few years and probably for centuries to come. Because if my interpretation is an adequate one, and I hope it is neither romantic nor exaggerated, the complete failure of the Economic Conference this summer would mean pushing every nation that takes part in it very far in the direction of national socialism.

My reasons for asserting that fact are these. In the first place the price structure of the world operates on the theory of a world market. And that market is largely disappearing at the present time into a group of separate economic systems which operate with an effort to attain self

sufficiency. Now that concept was one of the factors that was fatal to the Greek city-state and is certainly as much an anachronism as the Greek city-state itself would be in the present world, and yet you see every day the tide that is bearing nations toward the effort to build a self-complete economy within their own boundaries.

That tide has been momentarily arrested. It has, I hope, been permanently disappointed. I say it has been arrested because in the administration of the United States, not only in the person of the president, but in the person of the Secretary of State, Mr. Hull, a fellow Tennessean of mine, you have a man who is convinced that that way lies destruction and he will certainly oppose in every way possible the tendency of trade economic isolation for the United States of America. But the factors that are making for that economic isolation are world wide in their scope, and if the stagnation of trade as between countries becomes absolute, and it is very fast approaching that point, the investments of every country which has foreign investment, can be written off, because they can only be paid back in goods. War debts or private debts, the same reasoning applies.

The internal economics of those countries which depend on export markets—and this interests you, although you have become an exporter of capital in the last year—those countries which must depend on export markets must recognize that they will be forced into a narrowed economy which constricts those export markets and forces them into a suicidal type of competition for the disposal of surpluses in the home market. That is the inevitable tendency under the system. We have operated under the system for some time and its effects are become, I hope, fully apparent.

Now that way lies closing up the systems of the world into separate systems warring with each other for the possession of natural resources. The position of the United States is more fortunate relatively than other systems. The position of the British Empire as an Empire is extraordinarily fortunate in this kind of system, but I watched with great interest the conference at Ottawa this summer and I

was not entirely convinced that the results of that conference meant that the materials of all parts of the British Empire were pooled in a common pool. I may have been mistaken in my judgment but I watched it with what I hope was a detached interest. You are faced with a turning point in the traditional policy of the British Commonwealth of nations and particularly of the United Kingdom, because the United Kingdom has been forced to depend in the past, and probably as a great exporting country must continue to depend, upon the widest possible export markets for its goods. We were assured by Mr. Baldwin at that conference, and I believe his views were shared at least in Ottawa by the other members, that the results of the Ottawa conference were aimed at freeing the world economically, at creating a larger area, a freer international trade, at increasing these territories which were within the low tariff areas.

Now, as to whether the Ottawa agreements really achieved that purpose there is dispute. But the contention was two-fold, I take it. The Ottawa agreements clearly did put the governments of the British Commonwealth and particularly that of the United Kingdom in a strong bargaining position, in so far as those agreements could be used as the basis for bargaining. And that question, I think, underlies, and is fundamental, whether we like it or not, to the success of the approaching conversations, because it underlies the prospects of any successful tariff revision throughout the world, and particularly with the United States.

In other words, if the Ottawa agreements are to become a standard to which, as Washington says, the wise and the just can repair and if they are capable of extension throughout the world, the principle of lowering tariffs can be followed instead of the principle of raising tariffs. That means one thing. It means something hopeful. It means something to which I hope the present administration in the United States is committed. If, on the contrary, the Ottawa agreements are rivetted upon the British Commonwealth of Nations in such a way that no alteration is pos-

sible for five years and that, substantially, outsiders are quite politely but quite definitely told, "This is an inclusive and exclusive affair" then I leave it to your common sense and to your judgment of the possibilities of concrete tariff negotiations as between your country and mine and as to how much can be done in the way of reciprocal tariff negotiations. In other words the extension of the principles of the Ottawa agreements means one thing, means something hopeful. The restriction of those principles to the closed Empire policy means something that I think is definitely antipathetic to the spirit that must precede this world conference, and to the success of any results that can be had.

I have spoken at the outset very challengingly and frankly, because I want to bring to your attention that there is the real basic principle we must establish in my country before we can proceed to the next question, which is just as important from our point of view, just as difficult, as the proposed Ottawa agreements are to the governments of the United Kingdom and perhaps this government. That is the question of war debts and their revision. When M. Laval, one of the succession of French Premiers, came to Washington a few years ago, or a year or two ago—it seems a long time so rapidly have events moved—the poet-ambassador at Washington, M. Claudel, is reported to have said, in proposing the toast, "Here is to the little pause between the crisis and the catastrophe." It is in that little pause we have been living for a long time. I think we have become to some degree hardened to this atmosphere of crisis, and, particularly if one lives on the other side of the border, the atmosphere tends to become chronic. It has its good aspects, unpleasant as it may be in some ways, it has already convinced the American people that they have found common political leadership. It has restored qualities which have been already demonstrated in the president of the United States, the confidence of the people in the willingness of their government to follow something other than a policy of drift, to attack by bold measures the dry rot which has set in in the economic life of the country.

Now unquestionably mistakes will be made. No one is going to claim, I imagine, that all the program of this administration is marked by an equal demonstration of wisdom. But at any rate there is an administration which can act and which has acted and will act and is acting. That administration has sought powers of an emergency character which as you know are more sweeping than those granted to any American president during the past time. But before that administration can really solve its domestic difficulties it must arm itself with powers to deal with international problems because there can be no solution of our foreign problems until we get the basic commodities raised in their prices to a degree where the purchasing power of the world is restored and we can get the exchange barriers between nations modified to such a degree that markets can exist as world markets. There are many people who do not share that point of view in the United States. One of my colleagues at Harvard, Dean Dunham, has written a book, "Business adrift," a very appropriate title, although some of his unkindly colleagues have suggested that the proper title would be "Dunham adrift." The substance of that work is that we should forego the export markets which mean only ten per cent of our total production roughly, that we should erect tariff barriers and live as far as possible a self-enclosed life. The dean has recently and under some pressure recognized that the implications of this policy mean foregoing the collection of debts of all sorts. He hasn't carried the analysis on to the next step. It would mean that the state steps in and rescues those bankrupt industries which are left in the wake of such a policy. There is a sufficient amount of them already. But the question is whether this is to become a final or fixed step or whether we are facing in the other direction. And that problem faces the administration in the United States to-day. It has power to act under what is probably the clumsiest political system in the world—constitutional system—rivetted on it by one hundred and fifty years of feudalism. And Mr. Roosevelt has demonstrated he can in the domestic sphere act with the backing of the country so

as to make that unwieldy machine move in a continuous direction.

But when he comes to the international sphere his difficulties increase. You know as well as I know that when people grant powers to him in the domestic sphere they will frequently be far more difficult to move in the international sphere, in foreign relations, and if he finds that in this matter of the war debts he is faced on the part of the British Government in particular, because that is the one with which he must begin these negotiations, with the attitude recently expressed by Neville Chamberlain, I think the powers of action will be from that point considerably diminished. I think that the prospect of getting any sort of solution through Congress or getting the powers that will be required to act from Congress, were in that instance definitely prejudiced by the remarks that Mr. Neville Chamberlain made. If you remember, they were substantially to this effect that, "Gentlemen, the payment of any further sums on the American debt has become impossible to the government of the United Kingdom. We regret those debts as painful to you to collect and painful to us to pay. We do not therefore propose to burden you further with receipts on this score."

It reminded me of a letter I got from a Scotch nationalist. He said my name was a good Scotch name, and I seemed to have some Liberalism and he offered me a program for the Scotch nationalist policy to which he invited my subscription. He said our program is briefly this, "Let England have the debt"—which I thought was a sound Scottish viewpoint—"keep off these grouse-shooting English Lords from England and turn it into a place for people to live in again. Free trade all around and the best Rhine wines for one shilling a bottle." To an American suffering under prohibition and able to imbibe only by frequent and somewhat fugitive trips to Canada in matters alcoholic, that had a somewhat pleasing ring.

But the remarks of Mr. Chamberlain were coupled with the willingness to let America have the debt so to speak, with the denial that that should be considered in relation

to any of the other problems which confront the world. Tariff systems must be altered, but not in the United Kingdom, not in the British Commonwealth. Exchange should be stabilized but in no way that would affect the freedom of the British Government to act. Well, that sounded to me startlingly like the doctrine I had been hearing in twelve long years of Republicanism at home and almost the same kind of impossibility that was represented by the Republican doctrine about the debt. The Republicans did not dare say, cancel the debt, because they knew it was political suicide to ask the American people to take over the greater part of the burden of the war. At the same time they were unwilling to collect these debts in the way other countries could pay by lowering tariffs. And they were left in that dilemma. I could understand the British position. But now the rules are reversed and we are told when we consider really doing something about the debts and tariffs, the things for which Britain has been concerned for years and years, that the time has gone by: it is just too bad: let us go on and talk about something else.

Now we cannot go on and talk about something else until we thresh this out and there is not much use going into conference when the prospects of that conference are rendered inadequate prospects of success at the outset. The collection of war debts of course does not affect the British alone. I was present in the chamber of deputies the night the French parliament ratified the Miller-Bellanger agreements and it was a very unpleasant action. I often had had the pleasantness of being mistaken for a Canadian and I had a book called "Canada and World Politics" under my arm and I assure you I displayed the title quite freely. And I hoped such halting French as I have would be mistaken for good Canadian French. Americans were not popular in that chamber. And I heard my country castigated more even than ever I did.

There were explosions, fish-shakings, epithets and sounds which seemed from the tone of voice to be horrible, although I could not make out quite what they meant. The whole thing culminated in the speech of a deputy who was

trying to persuade them that after all they would have to pay \$400,000,000 for the war stocks they bought in the war and there was no reason in the world for doing this thing, and he was silenced for the moment. If there should come another war—

Well, I don't know whether that has entirely disappeared from the prospects of Europe, but the aid of America perhaps would not be of the same type. But at any rate the diplomatic position of the French requires some benevolence from our standpoint. And that prospect is not entirely out of the picture.

It caused a dead silence in the chamber of deputies at the time—the only silence I ever heard in that chamber. And he followed it up with a magnificent and heroic gesture. His name is Cote, the perfumer, and also the owner of the *Figaro* and other papers with a demagogic twist. He was speaking about the war that might come, and knocked out the glass on the ledge in front and unhappily to cap the whole business a strong odor of *crème de menthe* arose throughout the chamber. You can imagine what an explosion it caused, and it was finally capped by some wag on the back benches who left his seat and made himself heard, "No publicity here." But M. Briand immediately got his vote of confidence.

I am going to suggest to you some of the things that reasonable men might do at this stage to assure political success on both sides of the Atlantic. I think it is very improbable that we can expect any government in Great Britain to make the next payments of this June 15 instalment. That is my impression. I think that will have to be put off without prejudice to a settlement, until we have gotten a permanent settlement. But that does not mean that we are going to be jockeyed out of position into putting off war debts until they are no longer of any value as a counter in the argument. Let us see what we can do in scaling down war debts and in the way of an offset.

I am not one of those official advisers. I have written memos. for the government. Whether they have read them or not I think is extremely doubtful but if there is a "brain-

trust" in the United States I hope we are not in for an era of price-boosting. I have no mentality of that sort. I am not among the legion who pose as advisers for the president. What I am saying has no official sanction. It is just exploring with you prospects of a settlement. Suppose at the outset we accept the principles of the British note, and they seem to be sound principles, and say these debts were contracted in commodities at an exaggerated price level. And look at what has happened the price level since. They have to be paid back in terms double and sometimes more than double their value. Suppose we accept that principle and say we will put in a gold purchase clause in our agreements, including the British agreements, that would at once scale down those debts fifty per cent at a blow. But it would also make provision for the fact that if there were subsequent inflation the debts would scale upward. It would relieve the strain at this time which is too great. It ought to be coupled at the outset with an extended moratorium. Because I do not believe direct payments at this stage are possible, but on that point there is diversity of opinion. Many people in England itself feel the principle of a moratorium is not a happy principle. And they would rather make direct payments if they can get reasonable ones. Well, let us see what we can get in the way of reasonable payments.

There are two or three important measures that might be taken. One might scale down the British interest rate to the same terms as the French. That would make interest payments very much smaller than they are. It would reduce the subsequent burden to terms that could operate between the countries. I do not mind tearing down the whole tariff structure but even with the tariff structure we have they could manage quite easily. Let us say in order to make this burden of intergovernmental debts as small as possible we should offer a convenient offset of those repudiated state debts in the United States, many of which were repudiated, nearly all of which, excepting three states, two of which made partial promises. Mississippi stands alone, branded with a deliberate default of a quite legitimate debt. But if you consider the reconstruction state debts which are

in another category, they were made by carpet-bagger governments, imposed upon the south by a victorious northern regime, and we have always felt in the south that they were not state obligations, that the rascality of these fellows, who were running wild in those governments and contracted debts fraudulently, ought properly to fall on the federal government. The assumption of those sixty millions at a convenient figure of interest could be made to mean about what the negotiators want it to mean, and I think it is politically feasible in the United States at this time. But the willingness to accept these things in the United States depends on the willingness to make some return. We cannot count tariff reductions in this as a return because any tariff reductions to be of any use would have to be reciprocal and they are the groundwork of the whole structure, just as stabilization of exchange is, in the attempt to get back to an economy that is not fluttering up and down, so any business man knows where he is and where he will be two months from now. There should be the removal or at any rate a modification of the quota system. In many instances quotas will have to be retained, but they will have to be used to promote the flow of trade. I think we will have to set up joint bodies to work out details of this kind as between all the countries of the world, not particularly yours and mine, although that is a useful sort of beginning. But in the matter of the treatment that we expect from the United Kingdom, which is the question immediately at point, we have legitimate ground for saying to Great Britain, we must be for this purpose allowed to interpret the Ottawa agreements as permitting extension of their principle. In other words we must be allowed to interpret them as not blocking the way to tariff negotiations. If they do, mark my words, (I do not speak in any belligerent way), no government that allows these agreements to stand in the way of world recovery and resumption of trade will get the gratitude of history and the posterity of the British commonwealth of nations. And I imagine few of those governments will get a verdict at the polls next election.

In other words if they are used for bargaining that is

something. The folly of the protectionist theory is that you can protect one country—that is very nice for that country, but protect them all: that is not so good. Britain has tried to demonstrate that for a long time and I think she has done it. You cannot remove these tariff barriers at a blow but you can extend the principle and not allow them to block trade agreements between countries. When they stand in the way of such they ought to be modified. That is a thing we should consider. There is another thing I think England should be prepared to drop, or should be if she holds to traditional policy. In this matter England is not alone concerned. That is access to the raw materials of the world without discrimination. Now the colonial dependencies—I used this language in the *English Quarterly* and was overwhelmed by a storm of protests from distinguished critics in England, on the ground I had offered by the use of the word colonies to include the Dominions. Heavens! I was shocked at it myself. And the accusation that I was talking about Dominions showed where the state of mind of my critics was. But the word colonies since the Statute of Westminster has logical application and it hasn't had for two generations any real application. But the colonial dependencies under the control of the colonial office to a very large degree do not want the discriminatory tariffs. Some of them said, "we cannot control them. Look at what happened in Ceylon." And unless the raw materials of the world are made accessible to other countries the closed door policy means future difficulties of a very grave order. It means departure from the British policy. And it means a man has no assets to put on the table. Equal accessibility to those raw materials and no discrimination among nations. Now that does not prevent a government putting on a revenue tariff. It does prevent discriminatory action between governments and that applies much more to France and Belgium than to Britain. It would of course have to be extended to American colonies, if we are asked for it, otherwise we would not get the benefits. That is a prime point of great importance to the future. It means that the closed system is being extended to colonial de-

pendencies all over the world. Export controls—I do not mean just the rubber thing—but tin and minerals and other important things. We permit anybody, with a very low minimum of discrimination and practically none, to own mines and to prospect in the United States. The Royal Dutch Shell owns a very substantial proportion of the petroleum resources of our country. It is a question whether we ought to encourage this thing from the point of view of England because retaliation would hurt everybody. If the American nation is forced back—and this is what I fear on the kind of philosophy represented by the *Saturday Evening Post* in my country—if they are forced back on that at this time it is a very serious set-back for the whole world, and not only for my own country. But as an American I am sure I shall feel it and my children will feel it rather more closely than the rest of the world.

If the British American negotiations succeeded and if we can find medium ground between the two countries, if we can approach the Ottawa agreements in the spirit they were offered by Mr. Baldwin, if we can hope to see some joint action of the central bank systems of the world in a co-operative construction, if we can see some stabilization of the exchanges and some removal of exchange barriers and quotas, we shall see a rift in the clouds, and we are at that delicate point in which confidence is being built up painfully. Once it is established the movement will be I think reasonably rapid. But if it is not established and it goes in another direction, how much longer do you give your country or my country going in the direction it is to-day without seeing a government stepping into a socialistic way, whether of Fascism or any other way, and running those things without a real sense of the magnitude of the problems and destroying those qualities of British individual character? The issues are large but they are being obscured by nationalism, and we have to make headway by a strategy that outflanks nationalism. You cannot get rid of it as a force. It is a useful force. But it is being used in a wrong direction. We have to direct it in my state: you have here and people have all over the world, if we are not to see the

system which we have built up wrecked. It is not capitalism which is destroying the world. It is nationalism of a most arbitrary type which is interfering with the basic things.

Now I admit that there are faults in the system. I hope these faults will be corrected and a betrayal of high trust will be exposed without fear or favor. That is not the point. The point is the causes of this thing have to be analyzed in order to be cured and we are present at a turn of the world, at a point where vision is required more than it ever was, and vision in the sense of a dispassionate, hard-boiled analysis of the facts of the situation. And your co-operation is needed—not just as Canadians, not just as fellow-inhabitants, not even as people speaking the same language—because we in the south feel perhaps a more direct kinship for Canadians than any others on this continent—but as human beings faced with responsibility at a critical time in the history of mankind, and I think if you view it in that light, and if we can get your support, which is worth more than any other factor, we shall get somewhere.

Sometimes people have said Canada is pulled between these two great systems, and unkind people have said it is like being between two worlds, "one dead and the other powerless to be born." Aside from the animus behind that jibe it is simply not true. The gravitational pulls you exert on England are greater than the pulls England exerts on you. And as a student of foreign policies I say that your position is of extraordinary importance. Your position with respect to the Ottawa agreements is a central one. The fact that they held the conference at Ottawa indicates your importance on that matter. And I appeal to you as strongly as I can to view it as a member of the British Commonwealth and put your weight in the direction it seems to me the weight of every man who values the institutions in which we have lived so far should be directed at this time.

PRESIDENT CHALMERS:—In reading over again "The New British Empire," Dr. Elliott's magnificent work, I copied out one sentence which I should like to read because

it bears on the last moments of his remarks. He said, "The new British Empire is the stoutest bulwark of world peace." That is the opinion that Dr. Elliott holds as to the place of Great Britain and the British Dominions, and I think that sentiment has run through all his remarks to-day. While he was very careful to tell us he does not speak with the authority of the United States Government, I think all of us will hope that he at least is interpreting the opinions of those in charge of the United States foreign policy at the present time. And in thanking him for this most brilliant address, I do not think I can say anything stronger than that I trust, and in fact feel, that if this address were delivered before a similar audience of intelligent people in the United States it would meet with the same enthusiastic acclaim. Thank you.