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The Economic Situation in France

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Gentlemen,—Thanks to you and to your chairman for the welcome you have given to me. You may imagine what a difficulty it is to explain oneself in a foreign language. I will certainly make breaks and I beg to apologize in advance for the breaks I will make, and I hope you will be indulgent.

At the present moment the greatest problem in France is her economic reconstruction, and in the problem of reconstruction, the greatest problem, one could say the only problem, is the problem of reparation. I will try to show you what France has done for her economic reconstruction, what she has done with dealing with the reparation problem, and ultimately and incidentally about the position we took at the conference in Washington. That is rather a large program but I hope that I will deal with it as clearly and as rapidly as possible.

The problem of reconstruction embraces all economic, financial and social questions, and not only the future development of the country but even its future existence itself. You know that there are classes which have been torn in France—1,400,000 which have been killed during the war, and about 700,000 permanently crippled. Those constituted the disappearance of an important economic factor for the reconstruction. Pensions have to be paid to the crippled on the French Budget. The material reconstruction of France has been estimated after careful study to cost twelve billion francs, and the capitalized pensions to be paid amount to about an equal sum. The French debt has risen from seven billion dollars to sixty billion, of which more than six billions is foreign debt due to Great Britain and the United States. They are important losses, financial losses, to which reference is seldom made, and that is the losses which we have made in foreign countries. You know that before the war the people of France were great lenders to foreign countries, but since we may say the practical bankruptcy of Russia we have lost about

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two billion eight hundred million dollars to the Imperial Russian Government and about one billion five hundred million dollars lent to Russia to construct a railway and to operate their mines and factories. In the Balkans France had invested money in Roumania, Serbia, Bulgaria, Greece and Turkey, to an amount which is a little over one billion dollars. That money is even unsafer than the money lent to Russia, because we can expect that Russia will pay back her debt when she begins to understand that she has to follow the laws of civilized nations, but the money lent to the Balkan states and to Turkey is very much in danger, and those nations, being not rich, it will take maybe long, long years to have that money paid back. In any case at the present moment they cannot pay any interest on their loans and of course the lack of interest paid on such huge loans is a great loss to the French people.

Outside of that, moreover, France has advanced during the war, at a time where the franc was at about a parity, about fourteen billion francs to her small allies in the Balkans and to Roumania and Serbia and Greece, and that money we cannot expect will be returned to us. That makes me point to the fact that this money lent to our allies, to our small allies, is five hundred million dollars in excess of the sum which was advanced to us by the United States. Now the resources of France cannot be employed only in the reconstruction of France. The French budget provides for expenditures of three sorts. First, the expenditures necessary for the upkeep of the Government, the payment of National debts, and interest on national debts, administration of public works, navy, army and so on; that is what we call the ordinary budget. Expenditure of most transitory necessity which once paid for will not be renewed a second time is called the extraordinary budget. These two budgets for 1922 total about twenty-five billion francs, after every possible consideration. These two budgets are about two billion francs less than the corresponding budgets for 1921, with the exception of a deficit of about one billion francs which is to be covered by loan or by treasury bills, probably. Both ordinary and extraordinary budget are covered by the taxes.

Three years only have elapsed since the end of the war and you must consider that a large part of France cannot be taxed because it is not reconstructed; so that the people have no possibility of paying these taxes. They are the Northern Departments, as many of you know because of having fought in just that part of France; they were the richest of all; they were producing white sugar, which is absolutely necessary to

us. They were producing nearly all our woollen and cotton textiles, and they were producing what was most important for the French industry—nearly a half of the coal consumed in France. Those Departments, although they form only one tenth of the territory so far as area and population are concerned, were paying one fifth of the total taxation of France. So you can imagine what a loss it is and considering that our budget shows only one billion deficit, one can see that as soon as that reconstruction is finished our budget will be easily balanced. But as far as the expenses of the Budget are concerned we can expect too that certain parts in the budget will be wiped out very promptly, that is part of our expenses which refers to the expense caused by the mandates. Here on the American continent you hardly realize that France cannot refuse the mandates which were imposed by the League of Nations. Here on the American continent you are separated by 3,000 miles of sea from Europe, but we are in the midst of it, so that if we do not take care of our mandates in Europe we shall be mixed up in all the difficulties which would be the consequence of troubles arising in those countries, and we cannot afford it. You have seen how much we have suffered. We have expended money to preserve the world from the invasion of the Bolsheviks during the summer when they went nearly to the doors of Warsaw. So we have to consider these problems which can be considered as negligible for you.

Now there is a third kind of expenses which have to be provided for by our Treasury and that is the proper expenses for the reconstruction of our invaded regions. Those expenses have been incorporated (as far as I am personally concerned I consider wrongly) under the name of the budget of expenses to be recaptured from Germany. Properly speaking these expenses are foreign to any budget. They constitute an account opened by the French Treasury to record the indemnities advanced by the French governments to the victims of the war, and which, in compliance with the Versailles Treaty are to be paid by the Germans, as it would be arduous for the reparation of the wrong done by the Germans to be withheld because of the wrecker's reluctance to pay. These advances cannot be considered as budget expenses to be covered by taxation. Moreover they are in the same class of expenditures as those which are defined in railroad finance as capital expenditure. These funds are never provided from current earnings, nor is it expected that they should, but from the savings on investments. Notwithstand-

ing that Germany did not pay for the wrong she has done it was of absolute necessity to bring the population back into their homes, or in the place where they lived before, to give the people the means of existence, to reconstruct the farms and manufacturing plants, to put the mines into operation. This was of primary importance. Under these difficult conditions while awaiting payments from Germany, the French Government began financing reparation out of the resources of France. Of course if one considers that certain of the goods necessary for reparation have to be purchased abroad it is readily understood that with the condition of the French exchange those reparations have cost much more to us than they would have cost in normal times. In spite of that adverse condition the reconstruction began; the part most apt to produce riches received first attention. Now 95 per cent. of the fields are cultivated, 75 per cent. or thereabouts of the manufacturing plants are in operation. The mines begin to produce coal. Everywhere one could see the fields covered with crops and nearly equipped factories surrounded by huts in which employers and employees are living in the greatest of discomfort, because the French people thought that it was better to reconstruct first what produced riches than the homes, and suffer the discomforts so as to rebuild France on a sound paying basis. I think it was a wise policy and I see you think it also. Then, since the Armistice, about fifty billion francs have been provided by the French Government for reparations and pensions. To cover those enormous expenses no taxation could have been large enough. It was an absolute impossibility. So the French Government appealed to the public by direct loans and by indirect loans floated by a bank, the *Crédit National*, created especially for the purpose. Others were issued by a corporation established for using the organized credit of the devastated population themselves. At first the circulation of the *Banque de France* was increased but the government considering that this inflation was endangering public credit stopped it entirely. So that for the past two years, instead of printing notes in conformity with the German system, we have reduced our circulation by two billion francs.

With a view of providing for reconstruction the government had recourse to other means. It framed a means of mobilization of all the working funds which could be obtained in France by the issue of treasury bills, short time notes. The Government has been reproached for having issued those treasury bills, but how else could it have obtained—except by in-

flation of the notes of the *Banque de France* or by a system like that—that enormous sum of fifty billions which had to be expended, with the exception of the payments of Germany, which never came. In fact if you judge the financial policy of the French Government, if you judge it by its social results, one can see that in France at the present moment everybody is working, that the agricultural people have returned to their fields; that the clerks have returned to their offices, that the workmen have returned to their manufacturing. Of course we must take into account that two million people have been killed or incapacitated during the war, but at the present moment the recent information which I get is that in France there are only 14,000 men unemployed. It must be considered that payments for reparation may be expected to be returned by Germany, but the prevailing rumour is that France is exacting too much from Germany, that it does not take the need of other nations into consideration at all, and that we are playing an egotistical policy. It was reproached to us that we have not done our duty to our allies on the subject, that we have always tried to put the world into difficulty on account of our desire to be paid in cash.

Let me tell you that since 1920 more than two years, even at the end of 1919, we began to negotiate a payment of reparation in goods. I do not know whether you remember the Spa agreement in April, 1920, where we agreed for the delivery of coal to pay two hundred millions a month so as to support the German workmen, so that we paid for coal, which according to the Treaty of Versailles, should have been delivered us free of any expenses, and we paid this way more than one billion francs.

Then after that we tried to work, twice we tried to work, a means of reparation in goods. First in January, 1921, by the London agreement which could not be worked on account of the fact that the German Government repudiated it, and then another was the Wiesbadem agreement which was negotiated by our Minister of Reconstruction, and which was adopted by the French Parliament last Autumn. I am not aware that you know this agreement. I think it would be of some interest to you to know it in some detail. It is a rather complicated question so I had better read.

"The terms of the draft agreement laid down that a corporation will be established in France to repay all the sufferers of war damages. This corporation will receive orders from the sufferers for whatever material they may require for reconstruction. These orders may be placed up to one billion gold

marks per annum. They will be handed by the French committee or corporation to a committee or corporation of Germans which will represent all the leading German manufacturers of all types of material. The payment for these materials in Germany will be made at the price of materials in the French internal market. The German committee or corporation opens the credit in Germany on behalf of the French committee or corporation to an amount of seven billion marks. This credit will be repaid in 1936 so as to permit rapid reconstruction with the goods to be purchased with this credit. These will have to be delivered up to the value of the full amount of the credit before May 1936. The German seller is paid by the German organization. The amount of each payment so made is placed to the credit of the German government and is deducted from the German debt according to the mortuuity of the said debt. Interest at 5 per cent. will be paid to Germany because of the anticipated payments which she is to make. If in 1936, the date of the mortuuity of the said credit, the rights of France to indemnity have not reached the sum of seven billion gold marks France shall pay in cash the difference between the amount of the indemnity so paid and the said sum of seven billion." Well, would you think that these conditions are hard conditions to fulfil by Germany?

One can see that this agreement puts the payments of indemnity from a purely financial one to an economic basis, and that really, I think, we have done our duty when we have signed such agreements. What can we do? We must be paid. Otherwise we are in a hopeless position. Do you really mean that after the war it would be justifiable to see France bankrupt? Now under these conditions you can see that France has done her duty, not only towards herself but towards the other nations, that we have been patient enough. We admit that we have to suffer more than the others because the war was fought on our territory, but we cannot really be asked to add bankruptcy to all our other losses. Peace we need. We want peace—I showed you the problems with which we are confronted and I am sure that without peace we cannot solve them. But peace cannot be separated in a Frenchman from security. And we must start. I say this frankly because in France we can be perfectly frank. I am against trying to lie to you. I have shown you the difficult situation with which we are confronted. I have told it to you frankly. Well now I tell you frankly, too, that unless we keep our army for security we cannot be certain that Germany will pay. We need to be paid, and we want to be paid, and that is a big con-

sideration in the position which has to be taken by the French government.

Then you must remember that in fifty years France has been invaded twice. I remember myself the war of 1870. And I am not a very old man. And be sure that with such a nation, which has such recuperative power as Germany—it has been shown several times in our history—we need an army to be certain that we shall not be attacked again.

Then during the negotiation of peace our victorious generals, Foch, Petain, and others, advised us that for being perfectly safe against any invasion we ought to keep the left bank of the Rhine. We were guaranteed by some of our allies that they would help us in case of invasion. And we renounced that frontier. For reasons of internal politics, one of those two nations cannot ratify that agreement. Circumstances proved that France has to rely solely upon her own army for her security on that frontier.

But it is a fact that the German army has been greatly reduced. We are confident that our allies would not leave us in a hole. So do not believe that we did not reduce our army. We have reduced our army greatly. Before the war our troops including those necessary to the defence of our colonies totalled 947,000 men; according to the budget for 1922, the present budget, they are reduced to 643,000 men. So that we have reduced numerically our army by one third. Prior to the war every Frenchman was serving three years. Now men are serving only about two years, and it is provided that within six months men will serve only for eighteen months. I do not think that is showing a very militaristic spirit.

If we compare the proportion of military expenses to the total expenses in our budget we see a larger reduction. But you must consider of course that our debt has increased and that the power of the franc is one third now what it was before the war, and that expenses for material have enormously increased. In 1914 out of a total budget of five billion two hundred million francs military expenses amounted to one billion four hundred and thirty-five million, or 27 p.c. Now, in 1922, out of a total budget of twenty-four billion five hundred thousand francs military expenses amount to three billion seven hundred million, or 14 per cent.

Well, I think I have given you explanation enough of our land army. If you are not tired I can give you some explanation of our naval expenditures. You know the emotion which was caused in Washington recently by the fact that we asked for a navy of 350,000 tons of capital ships and subma-

rines and cruisers. The main reason which caused the surprise of the world is the lack of knowledge, I will not say the ignorance, about the actual world position of France. There are very few people who realize that outside of her territorial position in Europe France possesses a colonial Empire which is only second to that of Great Britain and which is superior in area to the United States, Alaska and the insular possessions of the United States which has a population of sixty million inhabitants and produces a yearly commerce which last year surpassed ten billion francs. Do you really believe that under those circumstances we do not need a navy to unite those colonies with us, those colonies which are spread all over the world? Those small islands in the Pacific, which were the object of an understanding last week, are situated at the antipodes of France. Madagascar, an island about half as large as your province, is 5,500 miles away from our country. We have the great possession of Indo-China which is as large as the states of California, Oregon and Washington together, with a population of twenty millions, and nine thousand miles distant. And these colonies are not valueless. Those of you who have fought in France know the number of fighters they have sent to us. They sent 680,000 who fought in the trenches, 238,000 worked in the rear of the army and 107,000 served as agricultural workers. But nevertheless as soon as the armistice was signed we began reducing our navy with a view to curtailing our budget. The construction of five battleships amounting to 126,000 tons was stopped. Thirteen old battleships totalling 148,000 tons were scrapped. We gave up the idea of five replacement units amounting to 120,000 tons, and the total program of 1912, amounting to 155,000 tons, we have scrapped altogether, long before the call of the United States to any conference on limitation of armaments had been sent.

Our naval expenditures before the war amounted to 461,000 francs, or less than 9 p.c. of our total budget. Our naval expenses for 1922, which had been framed in 1921, provided for 940,000 francs, or less than 4 per cent. of our total budget. Moreover, in consideration for the concession made by others, the French Government showed its willingness to scrap a large part of the program of ten capital ships which had been prepared by our naval experts and the laying down of which has been postponed. We have agreed to reduce our construction in this connection to 175,000 tons as against 500,000 tons for the United States and England and 350,000 for Japan and the same amount for Italy.

The light cruiser and submarine question remains open. Having such a reduced tonnage of capital ships we must take other measures to safeguard our communication with our overseas possessions. Such communications have to be made by convoys; we need light cruisers. The safety of the French coast proper and the colony coasts must be protected in some way. We need submarines to protect them.

But on the proposals of Mr. Elihu Root and Mr. Balfour regulations for the submarine warfare have been adopted which forever prevent the use of submarines in times of war, and let me tell you one thing. I would say that some blasphemous insinuations have been made that the French would use those submarines against one country which has fought the war for us. Let me tell you that the idea of war arising between our former Ally, with Great Britain and her Dominions which came to help us at the beginning of the war, is repudiated by every Frenchman. This idea cannot come into the head of any Frenchman any more than it could come into his heart. We may have difficulties with Great Britain, as they have difficulties in all families. You have difficulties yourselves, I am sure, with the people you love best. Sometimes I have difficulties with my wife. But it is not a question of divorce between us. It will not be a question of divorce between Great Britain and Canada and France.