

Are War Indemnities Futile?

By Prof. W. W. SWANSON.

The German Minister of Finance when discussing peace terms, a few months ago, insisted that the Allies must bear the burden of a war "forced upon the Fatherland." He also gave utterance to the pious hope that, for generations to come, France, England and Russia would drag about with them the weight of the incalculable costs of this war. It is quite evident, therefore, that so far as Germany is concerned, she is determined that the Allies will pay for the huge sacrifices involved in the European war.

But the Allies do not mean to be defeated; and every day that passes makes victory for them more certain. In that event they are equally determined that the Central Empires shall pay, in large measure, for the enormous losses incurred by Belgium and France in conducting a war of self-defence. The French economist, Yves Guyot, spoke for the whole French nation when he wrote of the outcome of the war as follows, in the February, 1915, issue of the "North American Review": "The Allies will simply estimate their outlay caused by the war, and the loss occasioned by the destruction of property, and then will call upon Germany and Austria to foot the bill." Thus, however the war may turn out, the victors intend to make the vanquished pay. The only difference in the two programmes seems to lie in the fact that the Allies want merely compensation, while the Teutonic Empires demand compensation and punitive damages as well.

Angell's Theory: "No Economic Advantage."

Since the year of the publication of "The Great Illusion," by Mr. Norman Angell, a school of thought has arisen—or rather has been expanded,—wherein it is demonstrated that war can yield no economic advantages, least of all indemnities. Illustrations are drawn from ordinary civil life, wherein it is shown that, whatever the equities of the case may be, it does not pay to sue a bankrupt. It is argued that the war will have cost the Allies by August, 1916, at least thirty billions, and the Teutonic Empires about twenty billions. It follows, according to these pacifists, that it will plainly be impossible to collect on either side such huge indemnities, seeing that the Powers engaged will have become practically bankrupt.

The reason for maintaining this position is simple and clear. It is averred that an indemnity may be raised through taxation or by the sale of bonds at home or abroad, or that it may stand as a long-time obligation between the governments involved, to be liquidated gradually. It is pointed out, however, that the first expedient cannot be thought of, that a vanquished and impoverished nation will not be able to raise the large amount, involved in an indemnity, through taxation. Moreover, at the conclusion of peace all the countries at present engaged in war will be busy rehabilitating their trade and industry upon which any successful scheme of taxation depends. By as much as capital is diverted to the paying of indemnities by so much will that nation's industries be starved, and international trade be lessened. It is in that sense that Mr. Norman Angell asserts that an indemnity injures both the victor and the vanquished.

Fixing the Indemnity.

It is important to observe that, in connection with the exacting of an indemnity from Germany and Austria-Hungary through an annual tax, that the private incomes of these nations before the war amounted to about ten billions and five billions respectively. These incomes will have undergone a great shrinkage as a result of the war, and will scarcely exceed thirteen billions at its conclusion. As before, the first charge upon national income must be the sustenance of the peoples, and it would, therefore, prove a most difficult problem to raise even a billion dollars a year from the Central Empires by way of an annual fixed tax.

The expedient of floating a great loan for this purpose promises better hopes of success. France, at the conclusion of war with Germany, in 1871, paid an indemnity of one billion dollars; and her population was, moreover, not more than a third of that of the German Empire today. France, however, had a much greater fund of free capital, relatively, than Germany and Austria have at the present time; and she did not put her material resources to the same tremendous strain that the

Central Powers have been obliged to subject theirs. There can be little or no free capital left in Germany at the close of the war; already most of her liquid, and much of her fixed, assets have been pledged as a basis for paper money issues. It is probable that the national wealth of Germany and Austria amounts to one hundred billion dollars; but the income from that wealth is used in large part, as mentioned before, to support the people of these nations. Before the war Germany had about six billions invested abroad; but that vast sum must have been diminished since the outbreak of war by a billion or more. The remainder, indeed, might be used to pay an indemnity; but there would be serious difficulties involved in getting these funds out of the hands of private holders.

The opponents of the policy of exacting an indemnity as a condition of peace assert that Germany could not float a large sum—say, ten billions—on foreign exchanges in New York, Paris or London with any hope of success. To make such a loan a success, it would be necessary to assure buyers that there was no danger of repudiation. To do so would require the continuance of the present alliance for a generation or more at least; and nothing is more transient than international alliances. Moreover, there is the added danger that during that period a stronger and renewed Germany would arise, smarting under the sense of a crushing burden and defeat, and ready once more to challenge the world in arms. The mere threat of war would destroy the foundation upon which the value of indemnity securities would be based.

Turning from the above consideration of the subject we may now briefly examine two points; first, as to whether an indemnity must inevitably injure all parties concerned and, second, whether an indemnity on a large scale can be paid by Germany at the conclusion of this war.

The Crisis of 1873.

Mr. Norman Angell and his followers seek to prove their argument that an indemnity injures the victor as well as the conquered by citing the experiences of France and Germany in 1871, when one billion dollars was surrendered by the former country to the latter as one of the conditions of peace. They assert that Germany at once entered upon a period of wild speculation as soon as the money was secured; that banks, railroads and innumerable other corporations were started upon a reckless career; and that, as a result of excessive competition in a restricted market, there was an inevitable collapse of business with ruinous failures on every side. Germany lost hundreds of millions during the crisis of 1873 and the years of depression that followed, while France flourished and prospered. The reply to all this is evident: it is quite possible to squander an indemnity or any other large fund of capital, but it need not necessarily be done. Such an argument, indeed, is puerile. On the other hand it can be demonstrated that the crisis of 1873 and the ensuing depression were world-wide, and did not affect Germany alone. There was reckless spending there, and reckless speculation induced, in part, no doubt, through the payment of the French indemnity; but Canada has witnessed similar events as the result of a too rapid exploitation of the country's resources by British money. It is true that France did not suffer as Germany did in 1873, and during the following years; but France had remained largely an agricultural country, her industries were not over-developed, and her people were saving more than ever to rehabilitate the country after the ravages of war. If her foreign trade increased—and it did—while Germany's declined, it was due in large measure to the increased exportation of goods to pay in part the war indemnity to Germany.

France was a billion dollars poorer as a result of the settlement of the terms of peace; but that did not injure her buying power, or react unfavorably on her trade with Germany. As a matter of fact, international trade was as large as it could have been, provided France had retained her whole capital; the net result of the change was simply that Germany got the goods representing the interest upon the capital, instead of France. Wherever the world's trade was injured—and it was injured—the war was to blame, involving as it did a vast loss of wealth, and not the payment of the indemnity.

A German Loan and the Danger of Repudiation.

The second question may now be considered: Can the Central Empires, at the close of hostilities, pay Britain and her Allies the large indemnities required to make good the material damages caused by the war? As explained above, it seems conclusively established that the Central Powers could not at once hand over to the Allies any large indemnity. They simply will not have the ready money. On the other hand it is conceived that Germany might compel its citizens to surrender the six billions which they hold as foreign investments, and receive in return government bonds. Such a transaction would not demoralize the exchanges of Paris, London, or Berlin. In this way there would be no sudden withdrawal of capital from Germany, and the delicate mechanism of international credit would remain unaffected.

The only objection to this plan is the one already pointed out in the body of this article—namely, the danger of repudiation. But as the bonds would fall in the hands of investors in all nations, it is scarcely conceivable that Germany would repudiate them, as the obligation would be to private investors. The danger of repudiation would be lessened also, if part of the proceeds were invested in German industry, the interest on the investment to go to England and her Allies. It is quite possible that the demand for capital, after peace is declared, will be more intense in Germany than in any other country; for although that nation has not been ravaged by war it has, nevertheless, been living on capital, on material resources, that will have to be replaced. Even the interest on Germany's indebtedness may not go to England, but to South America, to Canada or to the Far East—to any part of the world, indeed, where capital is most required. In that event, the interest would come to England in the shape of goods, just as it would have come from Germany in the form of goods. The proceeds of the sale of German bonds in London could be used to retire British consols, and so reduce the nation's indebtedness. In that event, the present holders of consols would have funds at their disposal for investment; and as capital is not national it might be invested in Germany, or France, or Asia Minor or Russia for the development of trade and commerce.

Germany and Austria would, however, be compelled to meet, eventually, both the principal and the interest of these bonds. That would be done by the production and exportation of German goods, over a long period of years. It would mean longer hours of work, a lower standard of living, and the most rigid economy on the part of the German people for a generation to come. It would mean that the Central Powers would be handicapped in the race for industrial supremacy, for in the course of ten or twenty years they would have to part with billions of wealth.

In conclusion, it may be said that certain groups in the community oppose an indemnity on the ground that we are not waging a predatory war—that the British Commonwealth is fighting, first, for its very life and, second, for the realization of certain ideals. To all this we must subscribe. At the same time it seems only just that Germany and Austria, which wantonly forced war upon Europe, and have devastated Belgium and France, should pay the price of their wickedness and folly, especially after Herr Helferrich has unctuously proclaimed that the Allies must bear the burden of the war. Germany will be defeated, and Germany must pay.

GAVE OVER 7000 TESTS.

The Union Central Life gave free health tests last year to policyholders number 7656. Of this group 796 were found to require treatment for albumin casts or sugar in the urine. They were given the benefit of the company findings and advised to submit their cases to their family physician. The Union Central's mortality rate last year was 61.5 per cent.

GOING TO SOUTH AFRICA.

The Sun Life of Canada has made the necessary deposits with the Government, enabling it to open up for business in the Orange Free State and Natal. The company was formerly licensed to transact business in the Cape and Transvaal provinces of South Africa.

A RUSSIAN LOAN.

Finance committee of Russian Duma has approved new war loan for 2,000,000,000 roubles, carrying 5½ per cent interest. Loan will run 10 years with same privileges as previous issues.