

PAYMENT BY GERMANS OF REPARATION MAY BE CAUSE OF DANGERS

WRONG METHOD OF COLLECTION WOULD BE PERIL

EXPLAINS DANGER

Oscar T. Crosby Tells Problems Allies Face in Collecting Damages from Germany.



Oscar T. Crosby
PHOTO BY HANCO & EVING

Close Study Needed to Solve the Issues of Finance.

(Continued from first page.)

the maintenance of their troops in France, and all the expenditures made by the individual foreigners still will be figures in the millions of dollars and will, of course, in the last analysis, be covered by foreign funds, just as much as if the goods in question had been loaded on ships and sent to New York and there paid for in the usual course of trade.

The tourist traffic before the war yielded France an export value estimated at much more than \$100,000,000 a year, whereas her actual exports, as shown by the custom house, amounted to approximately \$1,200,000,000. Now the relation between these two figures is reversed and at the present the expenditures of foreigners in France amount to a far greater sum than the value of her exports declared at the custom house.

More Than Pay Imports.

The value of the imports to France [again I speak of those shown by the custom house figures] amounted, before the war, to approximately \$1,600,000,000. We shall not be far from the mark in assuming that, if the French imports during 1919 were taken at the pre-war figure, they could all be covered by the sums which will be paid in liquidating the accounts of the foreign armies on French soil, which remain in large, though diminishing, numbers.

The liquidation of the American expeditionary force and the continuing expenditures due to the presence of troops [whose average number during the year of 1918 cannot be stated with accuracy] will be available during 1919.

I may venture to say that the needs of France in the United States, including the interest charges, will be more than covered by the dollars available from our payments in France during the year of 1919.

Tourists Will Pay Much.

Glancing at the future, there seems to be no reason to doubt that the army of American sightseers which is ready to spend money freely in France will partially take the place of the khaki clad multitudes now crossing the Atlantic homeward bound. The tourist expenditures before the war will doubtless be completely dwarfed by the immense sums spent here in visiting the battlefields of France.

It is not unreasonable to suppose these visitors would pay the interest of the government if the balance of trade would in itself fail, and cover the amount due which would not exceed \$175,000,000 a year, the bulk of which runs in favor of Great Britain.

We may more than safely make such a presumption, remembering that what has been said regarding the future tourist traffic applies to the whole world, though the figures in respect to the British military expenditures would be far less than those presented by the American case.

Admit Peril Still Exists.

The relatively optimistic view of the French external finance for the next few years has not left her thoughtful statesmen in doubt as to her grave internal problem. If comfort is to be found in the fact that all the other belligerent countries must face similar difficulties they have that comfort in plenty.

In the parliamentary debates the following striking figure stands out—namely: an annual deficit of approximately \$2,000,000,000, after taking into account the total domestic revenue that can be collected without incurring the political dangers feared by the French statesmen.

If we deduct from this great sum the total interest charge on the external debt (roundly \$275,000,000) it remains that something like \$1,750,000,000 deficit must be covered. Then the discussion reveals the conviction that if France had no external debt whatever, her internal finance would yet present questions of the gravest character.

Delay in German Payment.

Under these circumstances the French financiers naturally turn to the consideration of the relief which may be obtained from Germany by way of indemnities. Thoughtful men appreciate, however, that whatever may be the sum eventually fixed on as that due from Germany to the various claimants against her, it will be impossible to transfer a large sum to France during the current year.

Mr. Ribot therefore assumed that another domestic loan probably would be floated in France during 1919. The suggested figure was in the neighborhood of \$5,000,000,000. Whether or not this loan, if made, should be specifically guaranteed by the German indemnities, it is obvious that such payments are expected to strengthen the operation. But since the amount and maturities of these indemnities remain

all of a loose character, and, in using them, I do so with many reservations, but also with the thought that all of them are tainted more or less by errors of the same kind and hence, after all, there is some value in them as a basis of comparison.

M. Ribot quoted the experience of England during the Napoleonic wars as showing that something like one-tenth of the national income had been taken by the government for war purposes, and suggested that this is the limit beyond which no government may safely go.

Many Need Full Income.

If we are still at sea in respect to such calculations, we may be quite sure that far less certainty attaches to any similar estimates made a century ago. Nor does it seem to me possible that the proportion indicated by M. Ribot can be maintained in any country.

We have reason to believe that something like 80 per cent of the total wealth produced in any country goes annually to those whose incomes are so small that they do not much more than keep the owners in good working condition. Thus it is probably impossible to divert to nonproductive purposes one-third of the real income of the people of any nation.

One explanation of these wide discrepancies may be supposed to be found in the fact that the enormous amounts of aggregate wealth produced by the small farmers do not find the way into statistics.

French Production Cut.

Let us, however, use such figures as are available and make some corresponding deductions therefrom. It should be noted first that the pre-war income of France will be, for some time, diminished by virtue of the paralysis of business in the devastated districts.

There will then be a further reduction due to the perilous French foreign investments to which M. Clemenceau so pointedly alluded. While the capital involved in these investments is large, the actual return as a part of the national income is small. In comparison with the wealth produced by the constant industry of the people residing in France; thus, we may roughly assume from Mr. Clemenceau's figures on the war, that the income on \$5,000,000,000 foreign investments would for some years, fall to reach France. That means approximately \$300,000,000, or five per cent of the estimated total income of the nation before the war.

Value of Money Changes.

In endeavoring to reach an expression in money for the annual income of the French nation hereafter, a great difficulty is presented by the immense change in the purchasing power of money. We may expect a large increase in the nominal income of the nation even if the actual amount of wealth in material things should remain unchanged. The extraordinary expansion of the circulating medium in France undoubtedly will result for some time to come in an era of high prices.

Efforts will be made by the intelligent and patriotic men who conduct the French finances to relieve the situation, but it will not be easy to go the next year or two.

In 1913 the French paper money was approximately \$1,200,000,000. The latest statement of the Bank of France shows that this has been increased to \$5,000,000,000. It is only necessary to quote these figures in order to show how difficult will be the process of deflation.

Higher Wages a Problem.

Independently of this fact we are confronted here, as elsewhere, by the new standard of wages established in the production of war materials. No account was taken of the normal peace time value of the product of labor. How to get away from this condition without strikes bordering on a revolution is a world-wide problem.

Without attempting a solution of this question, we may safely state that every bushel of grain and every manufactured article produced in France for the next few years will be quoted at a higher price in money than in the pre-war days.

How far this inflation in prices will be carried is mere guess work; but, since we must make some estimate, it may not be wide of the mark to say that, in money value, the national income of France for the year 1919

would show an increase of, say, \$5,000,000,000, raising it from \$5,000,000,000 to something like \$10,000,000,000. This sum is not far from three times the total budget figure and might suggest the possibility of the English precedent during the Napoleonic period being followed, meeting the whole of the \$5,000,000,000 budget by domestic taxation.

This does not, however, seem at all probable as a practical matter. The French people feel that they have a right to a diminished taxation after the close of the war. It may be considered impracticable, when there is no enemy knocking at the gates of Paris, to impose taxes which might have been borne by the Frenchmen when their national existence—even their lives and property—were in constant danger.

Must Pay Actual Loss First.

I take it that M. Ribot's rough estimate of something like \$2,000,000,000 as the politically practical limit of collectable taxes is not wide of the mark. Suppose that the deficit should be covered by the increase in the domestic loans in 1919, can France, in the long run, look to compensating payments from Germany?

It is assumed here that the claims of those who have suffered a direct loss of property must be met from the enemy funds before the ordinary operating expenses can be covered. Similar claims are to be presented by Great Britain and Belgium, and the other countries and total of these reparation claims, strictly construed, may reach an amount large enough to take the entire paying power of Germany for a considerable period.

Payment and Punishment.

It sometimes happens in private life to take a sum of money from a debtor while punishing him; cripples him at the same time. Both these desires can be gratified if the debtor has wealth sufficient to meet the demand upon him and in such form that it may be directly transferred to the possessor of the creditor or to others for the creditor's benefit.

When Germany demanded in 1871 \$1,000,000,000 from France—what seemed then a huge war indemnity—it was possible for France to meet the demand to a large extent by the transfer of foreign investments to the German account. Today the bare reparation claims of the allies seem to exceed by far the value of the German assets available in this way.

The creditor must, therefore, look to the future production of wealth by the labor of his debtor. Hence, in self-interest, he may be forced to permit a relative property to his debtor.

Must Be Given Incentive.

An alternative is sometimes proposed, namely, that the debtor should be made to work under overseers, receiving a moderate sustenance as the fruits of his labor, the remainder to be taken for the benefit of the creditor. If the debtor be an inferior individual or race some success may be had by such a method. But, it must be dismissed as wholly impracticable when applied to a virile individual or people.

Such a debtor must have some hope of reward for himself as a stimulus to perform the labor required to insure his own support and in his credit the huge contributions to his creditor.

The surplus beyond his bare sustenance must be divided between the debtor and creditor.

The amount of German wealth which can be presently and directly transferred to the allies may be so small as to be of little value in the situation now approaching.

Gold Supply Not Enough.

Shall gold be taken? The visible gold supply of Germany is reported approximately at \$500,000,000. It is supporting a note issue so great that if the metallic cover be seriously diminished one must expect a breakdown in her whole financial situation, with a corresponding diminution in productivity.

This statement is based upon the fact that, until now, the gold basis for the circulating medium is the theoretical requirement in all civilized countries and, even if it be considered as a mere fetish, it is a fetish which has great power.

Shall we take the sequestered properties of the German citizens in the United States, Great Britain, and France? These reach a respectable figure so far as the immediate necessities of France are concerned, but they must

first be applied to the counter claims of entente citizens owning sequestered property in Germany, and it must be remembered that that sum, if any, will constitute the only immediate purchasing power available to Germany after the lifting of the blockade for the obtaining of the raw materials required for the needs of her own people and for that export business which will be in a large part the source of the indemnities due to France and her allies.

German Exportable Surplus.

This brings us to the real heart of the problem, which is this: What is Germany's exportable surplus? The French ask themselves, "Shall we take coal, potash, iron ore, and other similar materials, leaving to Germany the problem of settling with the laborers engaged in such production?"

Certainly these articles and various manufactured goods made of domestic and imported raw materials are the real things in question. An estimate must be made of the quantity of such materials that Germany can produce beyond her needs, and, above all, of the quantity wanted by the other nations.

Let us use "the method of limits" known to the mathematicians. Suppose all of the coal and iron required by France is to be taken from the German mines. That means the paralysis of the corresponding French industries and an ultimate domination by the German industries of the markets which in the normal course of events would be shared between the nations according to their efficiency in production and distribution.

Restriction Is Likely.

A newspaper review of the situation cannot be developed into a complete economic treatise, but we may without much error safely assume that some thing like the pre-war conditions of international commerce will again prevail. If they are to be modified at all it seems that we must assume in some respects a restriction rather than an expansion of international traffic because of the pronounced developments of the protectionist spirit, which now shows itself not only in France and Italy but in free trade England.

In the latter part of the pre-war period the German exports amounted approximately to \$2,250,000,000. In the present prices of things in general the same material would be given a higher money value. Against these declared exports there were declared imports valued at \$2,500,000,000.

It is not probable that Germany was actually going into debt for the difference between these two figures, but it was covered by the returns from her carrying trade and the financial operations not registered in the custom houses.

Profit on Foreign Account.

We may safely suppose, indeed, that there was a profit in the international account, which would take the form of increased foreign investments. We know that Germany was doing much in this direction, as evidenced by her activities in the Bagdad railway and

similar enterprises in other parts of the world, where her bankers invested European savings, not altogether German but certainly in part belonging to their own people.

It is wholly impossible to figure exactly the amount of profit made by the German nation in the foreign trade. Some students roughly estimate it at \$500,000,000 annually. This seems to be a high figure.

In 1913 the annual increase of the German wealth was given by Dr. Heffterich, then foreign secretary, at about \$2,500,000,000, but, in a large part, this was due to the building of domestic plants, the improving of domestic lands, the constructing of domestic roads, etc. This part of her increased wealth is not subject to transfer to foreign countries.

Cannot Move Basic Wealth.

We may secure the net exportable surplus, resulting from the increased fertility of a field, the increased size of a factory, the increased effectiveness of a railway, but we cannot take the thing itself.

If the world can be set at peace and if the international exchanges can be made more free than in the past then, indeed, the national industry of every country will doubtless produce more than in the pre-war period and a larger proportion of this production will enter into one country and another and will be correspondingly increased.

What Can Others Absorb?

It is important in this discussion to realize the limitations, due to the ability or willingness of the foreign countries to take products from Germany. We must not dwell solely upon her production of a given amount in excess of the sustenance of her own population.

I speak of this, particularly, because a very eminent banker in London, very familiar with German conditions, stated to me that Germany could pay annually something like \$2,000,000,000 a year to all of the foreign claimants against her.

I am convinced that products, valued in very big figures, could be produced by Germany beyond her own needs if her industries could continue to work as effectively in the future as the industries of all of the belligerent countries have worked during the war period, but I am not convinced that this amount of net gain products can be absorbed by the outside world in normal commerce without producing a serious disturbance in the industrial organizations of all the manufacturing countries, especially those which hold to the protective policies.

Example of United States.

Our own exports during the last four years have not been offset by the imports. A phenomenal amount went out against foreign promissory notes, but, for reasons probably familiar to all, this process cannot be taken as a precedent for peace time.

In any case it would be a serious mistake in world finance to assume that vast international transactions with Germany, far beyond those indicated

by the pre-war figures, will be the basis for the permanent arrangements involving relations with all the trading countries.

Must Pay to Themselves.

No course of reasoning, based upon data now before us, leads one to conclude that the deficit in the French budget can be satisfied entirely from external sources. The payment of the remaining internal debt or the interest thereon constitutes a transfer of wealth from one Frenchman to another, or a diminution of revenue to the individual Frenchman holding his government's obligations.

This would occur without any scaling of the interest charges or repudiation of the principal if taxation is so levied that a large portion of the income received by the holder must be paid to the state, whether through direct or indirect imposts.

These processes will not in the first instance diminish or increase the national wealth, but if the individuals and the institutions which have very largely invested in the French obligations fail to receive the amounts to which they are nominally entitled there will be a serious dislocation, having at least a temporary evil effect upon all internal business.

All Countries Are Involved.

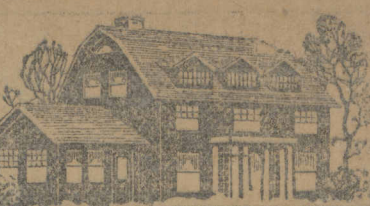
This, of course, is a general situation, applicable to all of the countries having huge internal debts. Specific efforts to solve this vexatious problem cannot long be delayed. And every country must have—a keen interest in solutions attempted by every other country.

Politics and finance are bedfellows, whether one likes it or not. Statesmen, treasury officials, and the man in the street, all over the world, await with keen interest the next move of the French minister of finance.

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