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The Dawes Plan in Operation *

BY JOSEPH E. STERRETT

The Dawes Plan has been in operation for less than three years, but even this brief space of time has been sufficient to create a sort of legend which obscures in many minds the deeper meaning and purpose of the Plan. In considering what the fruits of the Plan have been and some of its possible implications for the future, it is desirable to reëxamine briefly the historical setting of the Plan and also to restate its purposes and some of the means by which it was hoped those purposes might be attained.

From the signing of the Peace Treaty of Versailles in June of 1919, reparations became the central economic problem in European affairs. Nothing could be settled until the reparation problem was solved and, instead of being left for settlement by an independent body who could view it as a business problem, it became the football of both national and international politics. Conference followed conference and the situation grew steadily worse. The Reparation Commission, representing the Allied Governments, made demands upon Germany for reparation payments, and in the earlier days succeeded in collecting substantial amounts. These demands, however, were not based upon a scientific study of Germany's ability to pay and had little regard to their effect upon the German economy. Not only in Germany but in the Allied countries as well, reparations were at least a contributing factor in the dislocation of the currencies.

In consequence of currency conditions, especially those in Germany, business had no assured basis and every transaction which involved the factor of time had in it necessarily a large element of speculation. At the end, Germany was prostrated, its currency became practically worthless, one gold mark being equal to a trillion paper marks. Reparations were not being

*An address delivered at the annual meeting of the Chamber of Commerce of the United States of America, Washington, D. C., May 3, 1927.

paid, and what looked like an interminable deadlock was strangling Germany and doing vast injury to the Allied nations. An effort had been made to collect reparations by force but the principal result was a crop of deep bitterness.

By one of the greatest of modern miracles, Germany, in the midst of this situation, stabilized its currency late in the year 1923. The rentenmark, as the new currency was called, had a value equivalent to the old mark. It had no gold backing, but merely a mortgage upon the land, and to some extent upon personal property; yet in spite of this, the German people had a measure of confidence in this new currency sufficient to enable its equilibrium to be maintained. Obviously, however, this equilibrium could not have been continued for long without some kind of a settlement of the reparation problem and without the help of a foreign loan. Demands by the Allies for payments on account of reparation might, and probably would, have placed a burden upon the German budget which would have again started the dreary round of inflation.

It was at this point in December, 1923, that the Reparation Commission appointed two Committees, the first of which, soon known as the Dawes Committee, was "entrusted with considering the means of balancing the budget and the measures to be taken to stabilize the currency" of Germany. The other Committee was to "consider the means of estimating the amount of exported capital and to bring it back into Germany." The work of this second Committee was done with careful thoroughness and its report is a valuable one. It, however, does not form part of the subject which we are now discussing and is therefore merely mentioned in passing.

The First Committee of Experts, as it is technically known, was presided over by General Dawes, and most of us remember the eager interest with which its report was received in April, 1924. The spirit of the report is indicated by its Chairman in his letter transmitting the report to the Reparation Commission. In that letter he said:

"Deeply impressed by a sense of its responsibility to your Commission and to the universal conscience, the Committee bases its plan upon those principles of justice, fairness and mutual interest, in the supremacy of which not only the creditors of Germany and Germany herself, but the world, has a vital and enduring concern.

"With these principles fixed and accepted in that common good faith which is the foundation of all business, and the best safeguard for universal peace, the recommendations of the Committee must be considered not as

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inflicting penalties, but as suggesting means for assisting the economic recovery of all the European peoples and the entry upon a new period of happiness and prosperity unmenaced by war."

As evidencing its attitude toward the problem which had been submitted to it, the Committee, in its report, said:

"We have approached our task as business men anxious to obtain effective results. We have been concerned with the technical, and not the political, aspects of the problem presented to us. We have recognized indeed that political considerations necessarily set certain limits within which a solution must be found if it is to have any chance of acceptance. To this extent, and to this extent only, we have borne them in mind. . . .

"As regards past history, it has not seemed necessary to establish the causes, nor the responsibility for those causes, which have operated to produce the present state of German finances and currency, except in so far as a recognition of their character is required for the prescription of remedies.

"Finally, convinced as we are, that it is hopeless to build any constructive scheme unless this finds its own guarantee in the fact that it is to the interest of all the parties to carry it out in good faith, we put forward our plan relying upon this interest."

It will be observed that the First Committee was charged with the duty of finding means of stabilizing the German currency and balancing the German budget. These objects had to be attained in the light of Germany's reparation obligations. Indeed, as the Committee said, "The dominating feature of the German budget is Germany's obligation to the Allies under the Treaty of Versailles." Consequently, any plan under which the German budget could be balanced and the stability of the currency assured, had to specify a definite basis for determining the reparation burden upon the German economy. Upon this point the Committee was emphatic; "We desire to make it quite clear that the sums denoted above in our examination of the successive years, comprise 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 all other similar charges. This is the so called "all-inclusive" feature of the annuities provided under the Plan. By it the maximum annual burden upon Germany is definitely limited. It is one of the principal safeguards of the German budget and of the German currency.

The annuities started at 1,000 million gold marks for the first year, which began on September 1, 1924, and will increase each year until the fifth year, beginning on September 1, 1928, when the maximum, or standard, annuity of 2,500 million gold marks is to be reached. All payments made by Germany on account of these annuities are paid in gold marks, or their equivalent in

German currency, into the Reichsbank to the credit of the Agent General for Reparation Payments; in the language of the Experts' Report, "This payment is the definitive act of the German Government in meeting its financial obligations under the Plan."

The funds necessary to meet these annuities are derived in part from the interest and the sinking fund on the eleven milliards of Germany railway bonds and from the interest and the sinking fund upon the five milliards of industrial debentures. These obligations are secured by a mortgage upon the German railways and by a somewhat similar lien upon the industrial establishments of the country. Another substantial part of the annuity is derived from the yield of the transport tax levied upon the transportation of goods and passengers in Germany. The remainder of each annuity is a direct charge upon the German budget and is secured by the so-called controlled revenues, that is, the yield from the taxes on customs, alcohol, tobacco, beer and sugar. During the present or third annuity year, this direct charge upon the budget represents one-fifth of the total annuity. It increases, however, until in the fifth or standard year it will constitute one-half of the annuity.

It is the aim of the Plan to place upon Germany the responsibility for the raising of these funds and the paying of them into the Reichsbank. There is only a minimum amount of foreign control. The Reichsbank has seven foreign members out of fourteen upon its general Council; one of the foreign members acts as a Commissioner and is in control of the note issue. There are at present four foreign out of the fourteen members of the German Railway Board and a foreign Commissioner who has broad powers in the event of a default; and there is a foreign trustee for the railway bonds. There are seven foreign out of the fifteen members of the Board of the Bank for German Industrial Debentures; and there is also a foreign Commissioner. In the case of the controlled revenues there is a foreign Commissioner who has general supervision over the administration of these revenues and he also has substantial authority in the event of default. It was, however, a deliberate aim of the Experts Committee to interfere as little as was consistent with proper protection with the functioning of the German Government. Throughout the operation of the Plan this principle has been adhered to with care.

As has been observed, the obligation of Germany under the Plan is to pay in German currency, to the Agent General for Rep-

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aration Payments, a stipulated annuity, and having done that her obligation is discharged; she is not responsible for the transfer of this German currency to the creditor Governments. The Experts Committee, in its report upon this point, said:

“There has been a tendency in the past to confuse two distinct though related questions, i. e., first the amount of revenue which Germany can raise available for reparation account, and, second, the amount which can be transferred to foreign countries. . . . We propose to distinguish sharply between the two problems, and first deal with the problem of the maximum budget surplus and afterwards with the problem of payment to the Allies.”

Reference has been made already to what the Committee did in regard to the first of these problems. Taking up in due course the second question, the Committee decided that the use and withdrawal of the monies deposited in the Reichsbank to the credit of the Agent General for Reparation Payments should be controlled by a Committee, known as the Transfer Committee, which consists of the Agent General for Reparation Payments as Chairman and five other members appointed by the Reparation Commission, one each from America, France, Great Britain, Italy and Belgium. In the language of the report:

“This Committee will regulate the execution of the programme for deliveries in kind and the payments under the Reparation Recovery Act, in such a manner as to prevent difficulties arising with the foreign exchange.

“They will also control the transfer of cash to the Allies by purchase of foreign exchange and generally so act as to secure the maximum transfers, without bringing about instability of currency.”

The Committee is given broad powers under the Plan and, except in the event of certain rather remote contingencies, its judgment upon any question within its field is final. With regard to the relative importance of the transfer part of the reparation problem, the Experts stated:

“We are convinced that some kind of coördinated policy with continuous expert administration in regard to the exchange, lies at the root of the reparation problem and is essential to any practicable scheme in obtaining the maximum sums from Germany for the benefit of the Allies.”

In his report of November 30, 1926, the Agent General in speaking of the Transfer Committee, said:

“The Transfer Committee is thus charged with the duty, on the one hand, of providing the maximum possible amount of transfers to the creditor Powers, and, on the other, of protecting the stability of the German exchange. In discharging this heavy responsibility the Committee must naturally look to the terms of the Plan and the London Agreements, but it has at the same time the cardinal advantage of complete independence of thought and action. The members of the Committee

are not open to instructions from any quarter, and in the discharge of their duties under the Plan are always free to act according to their own best judgment."

Enough has been said to indicate the general outline of the Plan and the organization which has been set up to administer it. It may, however, be added at this point, that the German Government has faithfully and promptly fulfilled its obligations under the Plan. There have been a number of questions, any one of which would have been quite sufficient to have caused a quarrel, had it not been that both the German Government and the organization charged with the administration of the Plan, were imbued with a willingness to agree; and these questions, as they arose, were taken up, as business problems usually are, for discussion in a spirit of mutual confidence and a desire to find some acceptable method of accommodation.

Turning next to a brief survey of what has been accomplished under the Plan, the financial results may be mentioned first, not merely because of their own intrinsic importance, but also because their success has favorably influenced other and more intangible results which, when an ultimate appraisal can be made, may well be found to be the Plan's greatest contribution to the post-war settlement. The annuity for the first year amounted to 1,000 millions of gold marks and that for the second year 1,220 millions of gold marks, while the annuity for the third year, now current, is 1,500 millions of gold marks. On account of these annuities, and including certain minor items of interest and exchange, there was actually received by the Agent General within the two and one-half years to February 28, 1927, a total of 2,732 millions of gold marks. The interest and sinking fund of the industrial debentures are payable in semi-annual instalments and other items, such as the transport tax, cannot be determined in amount until some days after the close of the period. It will be understood, therefore, that it is impracticable for the entire amount of each annuity to be in bank before the close of business on the last day of the period.

The disbursements in the first year were 897 millions of gold marks and in the second year 1,183 millions and for the first six months of the third year they were 528 millions, making a total of 2,608 millions. The remaining balance of 124 millions of gold marks does not indicate any difficulty in transfer but is a necessary working balance with which to meet drafts under

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contracts, of which there is always outstanding a substantial amount, and other forms of transfer payments the totals of which necessarily vary as between months. Emphasis is laid upon this minor point because there has been a mistaken belief in some quarters that reparation funds have been accumulating in the hands of the Agent General.

Out of each annuity there must be paid several items, in the nature of prior charges, before distribution can be made to the creditor Powers. One of the most important of these items is that of the service of the German External Loan of 1924 and there are other items covering the expenses of the various inter-allied commissions, such as the Inter-allied Rhineland High Commission, the Military Commission of Control, which has now ceased to exist, and the expenses of the Reparation Commission in Paris and those of the Office for Reparation Payments in Berlin. During the first two and a half years these charges have amounted to about 11% of the total disbursements, and approximately 89% has represented distributions among the Powers. In the first and second years, approximately 35% of the total disbursements has been transferred by purchasing with reichsmarks, foreign currencies which are either remitted to the creditor Governments or are paid out for their account. The remaining 65% was paid for deliveries in kind and for expenses within Germany of the armies of occupation, expenses of inter-allied commissions and such things. For the current year these figures are not yet available.

Much the largest single item of transfers is that relating to deliveries in kind. For instance, in both the first and the second annuity years, the payments for deliveries in kind aggregated rather more than one-half of the total disbursements for each year, and for the six months of the third annuity year ending February 28, 1927, deliveries in kind were almost exactly 50% of the total disbursements.

Deliveries in kind fall into two groups, the first commonly known as treaty deliveries, that is, deliveries of coal, dye stuffs and chemicals which Germany is required by the Versailles Treaty to deliver on reparation account and, secondly, other deliveries which are made under voluntary contracts which closely approximate ordinary commercial ones. Prior to the Dawes Plan, the Allies called upon Germany for certain deliveries and in so far as these demands were complied with, the German Government settled with its own nationals for the goods delivered. With

the inauguration of the Dawes Plan, Germany was relieved of the direct obligation to furnish goods; as has been pointed out, her liability under the Plan is limited to the payment into the Reichsbank of the specified annuities. Moreover, to protect the German economy, it is stipulated in the London Agreement that the programmes for deliveries in kind laid down by the Reparation Commission after consultation with the Transfer Committee, shall be fixed "with due regard to the possibilities of production in Germany, to the position of her supplies of raw materials and to her domestic requirements in so far as is necessary for the maintenance of her social and economic life and also with due regard to the limitations set out in the Experts' Report." It is further stipulated "That it (the German Government) will facilitate as far as possible the execution of the programmes for all deliveries under either the Treaty or the Experts' Report by means of commercial contracts passed under ordinary commercial conditions; and that, in particular, it will not take, nor allow to be taken, any measure which would result in deliveries being unobtainable under ordinary commercial conditions."

Practically speaking, deliveries under commercial contracts are a development under the Dawes Plan. The process is, briefly, as follows: A German seller, in the ordinary course of his business, approaches, say, a French buyer and they make a bargain because they believe the transaction is mutually advantageous. Up to this point there is nothing to distinguish the transaction and it is a matter for agreement between the parties whether the contract shall be carried out on reparation account or under ordinary commercial processes. The parties, however, let us assume, agree that the transaction shall be carried out upon reparation account. This means that copies of the contract are submitted to Reparation officials in Paris, who, in turn, consult with a German Commission, for the purpose of seeing that the class of goods and other details fall within the provisions of the regulations which have been developed under the Plan. The main object of this scrutiny is to insure that the contract does not call for the delivery upon reparation account of more than the quantities specified in the regulations, of certain materials which must be imported into Germany at a cost in foreign currency. Inasmuch as the regulations are known to everyone, comparatively few contracts call for rejection on this account. Another requirement which has to be observed is that the total amount of such contracts for any Power shall not

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exceed the amount available to that Power on account of its share at the time. Overdrafts are not allowed. Once a contract is approved by the Reparation Commission Office, it is sent to the Transfer Committee for consideration. The machinery works promptly and quietly and when a contract is approved, the parties proceed with its execution in the usual way. The contracts vary in their terms regarding the time and manner of delivery and time of payment. In some cases a contract may be completed in one shipment, while in others the shipments extend over a period of several months. Sometimes payment is to be made upon completion of the contract, while in other cases an advance payment is stipulated; frequently payments on account are required. These things are arranged between the buyer and the seller before the contract is signed. When a payment is due under a contract, the Allied buyer, instead of going to his bank for a draft payable to the German producer, goes to an authorized representative of his Government from whom he secures a draft at five days' sight (although time drafts are used to a limited extent), payable to his own order. He then endorses the draft and delivers it to the German seller (or to his order) who, in turn, discounts it or deposits the draft in his bank for collection, as he may choose. In due course the draft is received by the Reichsbank in Berlin and it presents the draft to the Agent General for acceptance and the amount of the draft, when due, is paid by the Agent General to the Reichsbank out of the annuity funds which are on deposit there.

The regulations under which deliveries are made upon commercial contracts were put into effect on May 1, 1925. Considerable progress was made in the development of this business between that date and August 31st, the end of the first year. During the second annuity year the practice grew and there were submitted to the Transfer Committee 2,559 contracts with French buyers and 1,091 with Belgian buyers. These two countries furnish the bulk of the commercial contracts; Italy's deliveries consist mostly of coal, coke, dye stuffs and pharmaceutical products, while Poland, Serbia, Rumania and the other minor Powers are still taking deliveries under contracts which were made before the Dawes Plan came into existence. Great Britain, outside her army costs, receives her reparations in currency under the Reparation Recovery Act, while in the case of the United States, her army occupation costs are being liquidated by direct cash

payments and her mixed claims are being paid under an agreement which was arranged with certain German exporters to the United States.

The goods covered by these commercial contracts comprise all sorts of things necessary to supply economic wants: coal and a wide variety of coal products, refractory products, fertilizers, chemicals, iron and steel, machinery of all sorts, railway supplies, sugar, textiles, horses, cattle and other animals. There were two large contracts in the second year that were of special interest, one, a contract for dredging of the Port of Havre, calling for an expenditure of nearly a million and a quarter of dollars, and the other, a telephone cable contract for Belgium, costing nearly 900,000 dollars. In value, individual contracts range from millions of marks down to a few thousand. A perusal of the reports of the Agent General makes it evident that the deliveries in kind have contributed directly and effectively to the restoration of the comforts and conveniences of the war torn countries. The imagination is touched by the record of such things as the deliveries to Serbia of railway and street cars to a value of more than four million dollars; agricultural, textile and other machinery of a million and a quarter of dollars; mining, bridge building and similar material of another million and a quarter; telephone and telegraph apparatus of nine hundred thousand dollars; hospital and medical supplies costing three hundred thousand dollars. Rumania received locomotives, cars and rails amounting to more than two million dollars, while Greece was assisted to meet its refugee problem by the delivery to it on reparation account of wooden houses costing three quarters of a million dollars.

The problems related to deliveries in kind have been the subject of considerable speculation and discussion and their ultimate effects cannot yet be measured. The Experts in their report said:

“We have given special attention to the question of deliveries in kind: in their financial effects, deliveries in kind are not really distinguishable from cash payments, and they cannot in the long run exceed the true surplus of German production over consumption available for export without either upsetting the exchange or rendering foreign loans necessary.”

Deliveries in kind were, however, provided for in the Treaty of Versailles and were being made pursuant thereto when the Dawes Plan went into effect. The Plan, therefore, did not originate the practice but it had to deal with an existing arrangement. The Experts recognized, moreover, that as a part of a going system,

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several of the Allied countries were dependent upon deliveries in kind, and to stop them would cause dislocation. Furthermore, they felt that within reasonable bounds, deliveries in kind might represent a stimulus to German productivity. They might also assist in making transfers. These hopes of the Experts appear to have been well founded. Deliveries in kind have gone forward with general satisfaction both in Germany and in the receiving countries. Especially, it would seem that the system of deliveries under commercial contracts is helpful as a means of restoring the channels of trade which had been broken up by the war. Under these contracts the German producer deals with a buyer whose credit is safe, while at the same time the purchaser secures from his Government some incidental advantages by making his purchase upon reparation account. German producers of a wide range of products, are being brought again into contact with Allied buyers. These recent antagonists are finding it possible to do business together, and thus the fabric of international trade which was torn asunder in the war, is, in part, being restored as an incidental contribution to reparation payments.

The payments by Germany and the transfers to the creditor Powers have been accomplished in the face of many real difficulties and of much hard work. Among other things, it was necessary to procure a protocol between Great Britain and Germany regarding the Reparation Recovery Act and to negotiate an agreement with Germany providing for the liquidation, in the third annuity year, of contingent liabilities which would have fallen, with probably detrimental effects, into the fourth and fifth years. However, goodwill and understanding on both sides have grown month by month and these have made it possible to solve the problems that have arisen in the past and this spirit constitutes a bright promise for the success of the further operation of the Plan.

Aside from its financial results, the Plan has marked a starting point for, and has been a contributing factor in, the economic and political stabilization of the western European countries which has come since 1924. One marked effect which can be attributed directly to the Plan, is the renewal in the German people of confidence in themselves and of hope for their future. The post-war period not only destroyed the German currency and wrecked the fortunes of vast masses, but it undermined the morale of the people. So serious was this condition that it was generally ex-

pected that a long time must elapse before morale would be restored. Happily, this prediction has proved to be unfounded. At the same time, the Plan made it possible for other nations, particularly America, to make loans and extend credits to German commerce and industry and thus supply the working capital which was necessary to enable them to function. Indeed, for a while American bankers were so eager to secure German loans that sometimes it looked as though the life giving stream was dangerously near to a flood stage. While the better class of bankers arranged loans and credits with discretion and care, others, in the early months of the Plan, rushed in with almost childlike simplicity. Before 1924 few American bankers had more than a limited experience in making foreign loans and it is to be feared that most of them have followed too closely the methods which had been developed in connection with domestic loans. Sufficient care was not always taken to adapt American methods to foreign conditions, and some good business has gone to other centers because of the onerous and inflexible conditions laid down by American bankers. Among other things, our cumbersome and complicated form of legal documents, which few laymen here have ever pretended to understand, is a good deal of a shock to foreign business men who have perhaps an over-appreciation of the efficiency of our business methods and practices.

Another highly significant development in Germany since 1924 has been the growth of an internal money market. In April, 1924, just about the date of the report of the First Committee of Experts, the Reichsbank, in order to protect the currency, instituted a strict rationing of credit. For months thereafter, the credit situation was analogous to the food situation in a besieged city where the inhabitants are allowed a quantity of food just sufficient to sustain life. After the German External Loan was floated, which provided a sound backing for the German currency, the rationing policy was gradually relaxed but it was not until near the end of 1925 that it became unnecessary. In the autumn of 1924 during the early months of the Plan, money was scarce and interest rates were high, the day to day rate being 16% in the middle of October and just under 11% at the end of December. On current deposit accounts the banks at first paid 6% but reduced the rate to 5% about November, 1924. Savings bank deposits and life insurance funds had been almost wholly

destroyed by the inflation. To the surprise and gratification of everyone, the savings banks began at once to show signs of life. In spite of low wages and a small volume of business, the common people manifested a gratifying degree of confidence in the new reichsmark currency which was established under the Plan. That picturesque and significant phrase, "The flight from the mark," was no longer heard. At the end of the first annuity year, August 31, 1925, savings bank deposits were reported at 1,304 millions of reichsmarks and at the end of the second year they had increased to 2,591 millions of reichsmarks. An interesting fact in this connection is that while the total savings bank deposits in Germany are, as yet, only about 16% of the pre-war deposits, the annual increase, aside from interest allowed on deposits, which before the war was of course a large item, is now greater than it was in the years preceding the war. In 1925, interest rates continued to fall, and short term money was reasonably plentiful, partly because of the accumulation of savings and profits among the German people themselves, and in larger part, no doubt, because of the loans and credits from abroad. Throughout 1925 there were no public offerings in Germany of domestic security issues, but in the early summer of 1926 offerings began to appear, and the internal market developed astonishing resources. For the whole year of 1926 the domestic issues in Germany amounted to about 1,350 million reichsmarks as against about 1,700 million reichsmarks of foreign loans; in other words, about 44% of the total public issues of securities in Germany in 1926 were offered upon, and absorbed by, the domestic market. In addition to these issues there were sold over the counter, in accordance with the usual practice, a large quantity of mortgage bonds, and also a substantial amount of new issues of capital shares was absorbed.

Had anyone in 1924 predicted the development within this short time of such an internal money market in Germany, he would have been dismissed as a visionary unworthy of credence. Its existence is a fact, however, and a fact which has much significance for American bankers. It would only weary you, even if time permitted, to refer to other developments within Germany, such as the growth in the sales of the coöperatives, the reduction of unemployment and the progress that has been made in the reduction of costs and the increase of production that has grown out of the widespread and intensive study that has been, and is

still being given in Germany to problems of business organization and processes of manufacture.

As we have already seen, the Experts Committee tried to provide a sense of security that would permit the German economy to proceed in its reconstruction in an orderly way. The German people have responded to this appeal of the Plan and their success has outrun expectations. The German people know that upon the economic side, the Plan has been their salvation. Their currency has been stabilized and the one external factor which might disturb the stability of the currency, that is, reparation payments, is under the control of the Transfer Committee which is charged with the duty of safeguarding the currency. This Committee, as we have seen, is clothed with broad powers. From my intimate knowledge of the character and the courage of the men who, as members of the Transfer Committee, are answerable to their own consciences alone for their acts within the provisions of the Plan, I know that they will not shirk their duty and that their ability and foresight are the best assurance that crises will be avoided.

Upon the political side, the Plan has also borne fruits of great importance. Out of an atmosphere of bitterness and hatred there has come a measure of peace and goodwill that is quite as surprising as any of the financial results. This is not the time nor the place to attempt to appraise the political situation between Germany and her former enemies. It is enough to remind you of the agreements that have been made during the past two years and of those other projects such as the ones mentioned in connection with Thoiry, which, in the interests of world welfare, let us hope, are not dead but merely sleeping. If the policies which were followed from the close of the war to 1924 were those of destruction, the Dawes Plan can fairly claim to be a policy founded upon justice which continues to be a contributing factor in the growth of constructive policies outside of and beyond its own field.

When we look to the future, we often hear around us the voices of the prophets of gloom. Many, speaking in a doctrinaire manner, are convinced that the Dawes Plan must break down—they say there is no hope for it. Other observers are no less certain that Germany can continue to pay and that the full annuities can be successfully transferred. Both groups can not be right and perhaps some misapprehension enters into the calculations

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of both. If the Dawes Plan was a final, rigid thing like a mortgage, there might be more occasion for concern. The Plan, however, is not an inflexible piece of mechanism fastened on the back of the German Government. It must be remembered that the annuities fixed by the Experts Committee had to be determined at a time when financial and economic conditions in Europe, and particularly in Germany, were much befogged. The Committee had to make its forecasts under these difficult conditions and to make these forecasts for a period of several years. Without yielding in our admiration of what they accomplished, it would not be surprising if it should be found experimentally that some degree of error crept into their forecasts. They recognized that possibility themselves and like wise men they took care to guard against unhappy results in such an event. Moreover, and this point seems to be overlooked by many, the Plan itself is not a final settlement. In its report, the Experts Committee stated:

“We would point out finally that while our plan does not, as it could not properly, attempt a solution of the whole reparation problem, it foreshadows a settlement extending in its application for a sufficient time to restore confidence, and at the same time is 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.”

Events are moving, the will to agree is growing, and it is not unreasonable to hope that it will not be long until the final and comprehensive agreement foreseen by the Experts Committee will become a reality. The questions yet to be settled are delicate and of a nature easily provocative of quarrels, but the problems can be settled in a friendly way if approached in the right spirit. The situation at present calls for patience and an effort to understand. In particular, there should be everywhere a restraint upon criticism. Apparently with this thought in mind, the Minister of Foreign Affairs of France, M. Briand, was reported recently as saying:

“I do not understand why public opinion impatiently confuses international politics with motion pictures, whose scenes must be reeled off at high speed. What is significant is that, thanks to the confidence imposed in Dr. Stresemann and myself by our countries, things have become possible which two years ago would have seemed quite impossible.”

The future of reparations may be faced today with confidence, and for the past, I know of no more satisfying tribute to the work of the Experts Committee and to the administration of the Plan than a statement in a Paris paper on February 12, 1927, which was penned by M. Jacques Seydoux, who had then just retired

from a long and honorable career in the French Government service. He said:

“Thanks to it (the Dawes Plan), the question of reparations, which not only aroused Germany against the Allies but involved the risk of embroiling the Allies among themselves at any moment, was taken out of the political field and transferred to the domain of technique. The Germans had such an interest in the restoration of their financial situation, and their industrialists needed credit so badly, that they accepted without hesitation the very severe clauses on control which the Plan contained. The fact is that everybody did his bit, and that a general goodwill succeeded the greatest possible badwill; confidence replaced distrust, and for two and a half years the Dawes Plan has been functioning without difficulty; differences of opinion have been settled without trouble either directly or by arbitral verdicts which everybody has accepted; Germany is enjoying a stable currency and a financial prosperity which increases every day, while the Allies are receiving what is due them.”