Starting the Dawes Plan;
George Percival Auld (1881- )

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Starting the Dawes Plan

Address by

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of

HASKINS & SELLS

Certified Public Accountants

Delivered December 6, 1924

Before the

CHICAGO COUNCIL ON FOREIGN RELATIONS

140 South Dearborn Street

CHICAGO
INTRODUCTORY LETTER

from

CHARLES G. DAWES

By way of introduction, the following letter from GENERAL CHARLES G. DAWES is quoted:

"I want to express my regret at not being able to be present at the meeting of the Chicago Council on Foreign Relations at which Commander George P. Auld is to speak.

"Before I became associated with Mr. Auld in reparations work I had read his brilliant articles on reparations questions in the magazine "Foreign Affairs," signed "Alpha." His chief article showed that he was not only an economist, but what is equally as important, a practical man. Before reading Commander Auld's article, I had read a number of other economic contributions to the subject, and to me it was like the sound of a clear bell in the fog.

"Commander Auld's official connection with the reparations work and with the institution of the Experts' Plan in Germany makes him an authority on the subject.

"With best wishes to the Council on Foreign Relations which, since its formation, has so signally demonstrated its great and growing influence for better international understanding."

"Yours,
(Signed) Charles G. Dawes."
STARTING THE DAWES PLAN

Address by

GEORGE P. AULD

I consider it a great privilege to meet the members of the Chicago Council on Foreign Relations and to take part in their discussions. I speak before this company with diffidence. In the past year knowledge of what is going on in Europe has become much more widely disseminated. Much more than formerly our citizens have been going abroad with a serious purpose; persons in a position to make close contact with European affairs and qualified to interpret them intelligently and report on them faithfully. There are many such present today. Mr. Hurley is here, a man who is charged with a heavy responsibility in connection with the great question of inter-allied debts and who has demonstrated that he is equal to that responsibility. Another sane and shrewd observer of European affairs sits near me—a man who during a considerable part of the past few months has served with distinction at Berlin in a capacity which is best defined as the Allied Chargé d'Affaires for Reparations. I refer, of course, to my friend, Mr. Rufus Dawes. In these circumstances I can justify my venturing to speak on the Dawes Plan and the debt problem generally only by the thought that no two persons ever get precisely the same picture and that it is sometimes useful to compare notes.

The problem of Europe's public debts is primarily a problem for Europe, for she will stand or fall according as its solution restores or further disintegrates the social fabric of the old world. But from another point of view, it is our problem, for destiny has thrown such a preponderance of power and prestige into our hands that American policy will be determining in its solution. Evidently we have a large responsibility.

With the starting of the Dawes Plan we have had an impressive object lesson as to our potentialities in this new role of World leadership, and we are beginning to be clear as to the nature of our responsibility.

During a period of five years, while we groped for light on the subject, our responsibility in practice was a passive one. That may have been unavoidable. Perhaps the fever
of nationalistic passions in Europe had to abate somewhat before we could hope to develop a genuinely American policy and intervene effectively. More certainly, we had to stand firm and perhaps impassive until the idea of cancellation of debts had run its course.

That doctrine was presented to the American people by well meaning economic experts as the complete answer. Our responsibility was to be nothing more nor less than money charity on a cosmic scale. We were assured that this would solve the reparation problem and cure the world of all its economic ills. It was to be the universal panacea. Moreover, economic laws were said to make it inevitable, and it, therefore, seemed to many to offer the quick and easy way out. But the great majority of the American people instinctively rejected this solution, and very rightly. It was a false philosophy and the so-called economic laws advanced in support of it, so far as we may now judge, had no real validity.

We may be quite sure that the people of Europe do not need any such vast and indiscriminate money charity. They need, it is true, considerate treatment—fair treatment—in the matter of their debts to us. They need, also, an intelligent response to their requirements for loans, and they need reasonable terms for those loans. But this will be only practical common sense. The charity which they need is the real charity of compassion and understanding. They need what the Dawes plan is now giving them—something of the vigorous optimism of America in their councils. They need, very vitally, and will continue to need, our moral support.

Until lately, we have failed them badly in this respect. We have adopted a certain attitude of moral condescension toward them. We have been prone to condemn them for their failures to achieve a real peace. Distance explains our inadequate conception of the catastrophe which overwhelmed Europe in 1914, and a totally different background of life excuses in a measure our failure to appreciate the difficulties of reconstruction. But to condemn what we do not fully comprehend is to accentuate an element of intolerance in our national character which is alien to American ideals.

Those who know what the sight of the first American troops meant to the Allies in 1917 will understand what in only lesser degree the arrival last winter of General Dawes, Mr. Young and Mr. Robinson meant to the weary protagonists in the reparation tragedy. It meant hope. Here at last was a message from the young Colossus of the West in
whose hands all the threads of destiny were gathered. The European peoples wanted peace, but they could not get it. They were prisoners of a terrible stalemate. They needed to find some common ground, and they found it almost immediately in the confidence inspired by General Dawes, whose vigorous and practical mind cut through a fog of bitter doctrinaire and legalistic controversy down to the essentials. A sure sense of political and social realities, a deep attachment to the spirit of fair play and a genius for getting things done were perhaps the greatest of the high qualifications which he brought to the task of stabilizing Europe.

And during the deliberations of the Committee and later when General Dawes had returned to the United States, the representatives of the Allies and of Germany gave their confidence in full measure to his colleague. While the Plan was being prepared and during the critical days of the London Conference and the starting of the Plan, they found in Owen D. Young that rare combination of qualities which makes it possible for a few men in a generation to serve a great cause greatly. A penetrating intellect, faith in humanity, courage, patience and a just mind—these are some of the things that have bound many men of many nationalities to Owen Young and have brought honor to his name in Europe.

A new spirit of co-operation is abroad in Europe today. It cannot be said that America created it, for such a thing cannot be created out of hand. It was already there, but America in the person of its representatives released it as an active principle. The European machine is now running and America furnished the oil which made it possible to set it going. It was not started without great labor, great skill and almost unbelievable patience and good will on the part of those who drafted the Report and those who participated in the London Conference.

Europe's contribution was a great one. At one of the fateful moments of history, the premiers of England, France, and Germany plainly showed that they were men of genuine good will and great political courage. It may be said that they were under the most vital necessity of reaching a settlement, for no one dared to consider the possible effects of a rupture. But they acted courageously, none the less, and they reaped their reward in finding widespread public support for their policies.

The mechanical features of the actual starting of the plan were significant only as they related to these moral aspects.
The general background of the arrangement created by the London Conference was acceptance of the principle of arbitration. Sixteen or seventeen separate arbitrations are provided for. Many of them are likely never to be invoked, for an agreement to arbitrate is evidence of a frame of mind which leads toward direct settlements by the parties themselves. Up to the present every point of difference which has arisen has shown itself susceptible of that sort of treatment.

The minimum of friction was caused by the application of the plan. The control bodies set up in Berlin were accepted by the Germans with perfect good will. During the interim period before the flotation of the loan, the German Government met all its payments promptly and co-operated in every way. The arrangements for deliveries of coal and other products which had been in force in the occupied areas were promptly extended by common consent on a commercial basis, and a joint committee was formed to settle the details of a continuing system of this character. Certain questions of valuation of services rendered to the Armies of Occupation are still pending, but progress has been made toward settlement. The economic sanctions were withdrawn by the French and Belgians on the agreed schedule and unexpected progress was made in the direction of military evacuation of the Ruhr.

The crux of the application of the plan was the loan. In principle, its flotation was a foregone conclusion. It was bound to come. But in practice, as the first of its kind, it was evident that the question of the security behind it would require careful examination. The negotiations were protracted and some feared that the delay might have unfortunate or even fatal results. Everything seemed to be poised on a delicate balance which might at any moment be upset. Happily the brief delay necessitated in the successive steps for bringing the plan into operation had no serious results whatever. The world seemed to have faith in the plan.

The Dawes plan has given Europe what it has so badly needed for six unhappy years—a modus vivendi. It is only that—like the organization of society itself—but that is its virtue. It is a triumph of the principle of attending to first things first, of acting on things agreed instead of waiting for agreement on everything. One thing could not be agreed—how much Germany was to pay in all—and it was the quarrel over this question that had prostrated Europe. It was a bitter speculative dispute and it was incapable of amicable settlement at the time for the reason that both creditor
gated in order that the theory might be properly tested. It is therefore provided by the plan that the annuity shall be paid in marks to the Agent General of the Allies at Berlin, and the German liability discharged as these payments are made. If the German people pay their taxes, no claim can be advanced that Germany has defaulted. The problem of transferring the payments abroad is up to the Allies, as represented by the Transfer Committee.

This is the well known problem of the export surplus—premised on the assertions of economists that debtor countries can pay their external obligations only by gold or goods. As the supply of gold is limited, it would follow that they can pay only by a huge surplus of exported goods, the creation of which is probably impossible, or, if not impossible, raises visions of a dumping menace to creditor nations. This apparent dilemma runs through most discussions of the reparation and inter-allied debt question, and the doctrine from which it is derived is widely accepted in England and America. It is a huge fallacy. Any economist, if cross questioned, will admit that debtor countries after exporting their available surplus of gold and goods have always settled their international balances by exporting their own securities. But this fact of first importance the economist rules out on the grounds that it does not constitute a final solution—that some day the indebtedness will have to be finally paid off. He returns, therefore, to the formula, gold or goods.

This insistence upon final solutions is the great weakness of the doctrinaire. He dislikes the thought of permitting nature to assume any of the responsibility for the solution of the world's economic difficulties. But he has only developed this weakness since the War. Before the War, when Europe was the great creditor, the debtor countries of the world had a private funded indebtedness to England, France and Germany of 30,000,000,000 of pre-war dollars, equal to $45,000,000,000 of today, and this indebtedness at the time the War broke out was being increased probably at the rate of $2,000,000,000 or $3,000,000,000 a year. The interest and the amortization payments on the individual debts making up this huge total were regularly made without the least difficulty. No one bothered to ask how it was done. There was no talk of a dumping menace or unhealthy stimulation of the industries of the debtor countries. The interest and amortization payments were not taken in goods, but were reinvested. No exchange difficulties arose for the reason that as individual issues were paid off new issues simultaneously replaced them as an outlet.
for the surplus funds accruing to the account of the creditor countries. In short, the indebtedness as a whole, so far as anyone could foresee, was a permanent one.

The post-war question of whether a debtor country, which by definition is a country with an export deficit, will be able to produce an export surplus for the payment of its debts, and thus become a creditor country, was never raised before the war. It was one of the great open questions which the future had to settle, if it needed to be settled at all. So far as the American indebtedness was concerned fortuitous circumstances settled it. By a colossal burst of productive energy the United States poured billions of dollars worth of goods into the insatiable furnace of war, and created a balance on the other side of the account. But this abnormal operation will not soon or ever be repeated in a reverse direction. We have returned to the normal situation, only with a different set of debtors and creditors. When economists assert that Germany or France cannot produce export surpluses sufficient to pay their debts, they may be correct. When they say that this is the only way the debts could ever be paid, they are certainly wrong.

Foreign capital in the form of loans has now begun to flow into Germany. So long as this continues, it seems clear that there will be no transfer problem, for the annuities will be paid over the exchanges against these foreign currencies. In this way the transfers for the year 1925 have already been provided for and they are being regularly effected.

This seems likely to prove the definite solution of the problem of transfer. For an indefinite period of years, Germany like certain other European countries, will be a debtor nation and will presumably be in the position of having a private external debt of a permanent character, gradually taking the place of the public external debt, as the latter is paid off.

It would appear that the payment of the reparation debt and of the inter-allied debts hinges largely on the question of whether the United States can and will finance Europe. It seems evident that we will be able to do so for a considerable period of years—perhaps indefinitely, certainly long enough so that we need not worry about the question now. Nearly a billion dollars of foreign securities have been sold in the United States this year, without the least difficulty. Evidently the investor believes Europe to be a good risk. When Europe was the world creditor, she produced sufficient for her own consumption plus her home capital requirements,
At the close of Mr. Auld's address, the Chairman called on Mr. Rufus C. Dawes for a few remarks.

RUFUS C. DAWES.

One ought to hesitate to express too quickly an opinion about such a paper as that to which we have just listened. But I am ready to say that I think Commander Auld, with his keen intelligence and broad sympathy, has shed new light upon one of the most difficult problems of today, just as in his articles in "Foreign Affairs" he showed a new avenue of approach to the question which was then the very center of the world's interests.

Robert Ingersoll said that if he were to create a world, he would make health and not disease contagious, but Commander Auld has shown us that the mere human instinct to gain a higher rate of interest may, in this crisis, be the salvation of the world.

The payment of war indemnities and international indebtedness is a burden resting upon the world, from which there is no escape. The contemplation of these burdens arouses fears as to the effect upon the progress of business, the comfort of the people, and the maintenance of peace. But the debts are the inevitable result of the war. Many have wished to see them cancelled, but that is impossible. They cannot be brushed aside.

The plan of the Experts has now been written, in its entirety, into an international treaty. It may not have been a perfect plan, or even the best plan. But it was an agreement. That is the important thing. It was not an ideal economic adjustment written upon a clean slate. It was a plan for the re-establishment of relations between nations which had been exhausted by war. It was an agreement and as such was the beginning of the process of reconstruction.

It is consoling to be assured that nature itself offers remedies for the repair of wounds that have been received, and that automatic forces are likely to come into operation in such a manner as to lighten the burdens which all must share. By the sale of European securities in the United States, which the desire for profit on the part of our investors will bring about, the peoples of Europe will obtain the means of stabilizing their currencies and replenishing their working capital.

Through this process the period will be prolonged within which the payment of the debt is to be made. Future gener-
ations will share, as they ought to share, in the adjustment of these relations. If the time comes when it is realized that these debts can never be paid, the men of some future generation can bury this corpse, but while these resources of our national credit are alive and breathing, we cannot bury them.

And now since Commander Auld has made a reference to my visit to Berlin, and has himself stated that Germany has accepted and is carrying out in good faith the terms of the London agreement, I feel I ought to add my testimony to his, and to say, as Mr. Owen D. Young, himself, has said, that Germany has met in the fullest measure every promise that it made. I may quote the words of that high-minded statesman, Chancellor Marx, who said that his government desired nothing more than to convince the world of its perfect good faith. The time has come when we must accept such assurances, and since even we, who meet in small gatherings such as this, have some influence, we ought to assert it in such a manner as to help rebuild faith and confidence in human nature. We must lay aside our provincial prejudices and cease to believe that because a man is a Frenchman, a German or an Englishman, he is therefore a liar. When the Committee of Experts met in Berlin during their early conferences, Chancellor Marx stated that this problem ought to be approached by all in a spirit of Christian forbearance. In just this spirit also the settlement must be applied.