The German Loan Delusion

THE war accustomed us to vast credit operations between governments. Since the war, reconstruction loans, "to stabilize the exchanges," have been a favorite panacea of philanthropists. In particular, many hopes of solving the Reparation question and of satisfying France at the same time have been built up on the idea that, when once Germany's annual payments for Reparation have been fixed at a reasonable figure, these prospective payments can be capitalized and anticipated by means of a vast international loan.

These hopes reached their highest point when a Committee of Bankers, which included Mr. Pierpont Morgan, met at Paris in May, 1922, and indicated that, on terms, great sums could be raised. Since that time sceptical doubts have increased about both the necessity and the possibility of such a transaction. Lord Curzon's recent complaint to Germany, that her proposal was made to depend on the feasibility of a loan, was a sign of this. Nevertheless, Germany made her offer in this form because she thought that this was the fashionable way in which to dress it; and the loan still figures in most paper schemes for settling Europe.

Why the Loan Is Chimerical

It is, therefore, worth while to repeat that the great International Loan is an absurdity—an impossible and injurious chimera. Germany, in any case, can only pay by annual instalments. It confuses the issue to introduce complicated provisions about a loan. But it also adds unreality to a discussion which, without this addition, has difficulty enough to keep in touch with facts.

The loan is chimerical because its suggested magnitude is out of relation to the capacity of the investment market for securities of this kind. The recent German note mentioned a first loan of £1,000,000,000, and subsequent loans of a further £500,000,000. These figures correspond to those frequently mentioned in discussion, which range from £500,000,000 up to £2,000,000,000. It is fair to the Germans to admit that amongst writers on this subject £500,000,000 is often reckoned a low figure and £1,000,000,000 not absurd. The idea is that the loan would be raised mainly in London and New York with some contributions from the neutral countries of Europe, and that the receipts would mainly accrue to France and Belgium. To the general public these figures convey no particular impression. To fix our ideas of magnitude let me quote some approximate totals of the volume of existing foreign investment.

The whole of the outstanding loans made by the British investor to the government of India, built up over a long period of years and largely taken in the form of British exports of railway material and the like, stand at less than £200,000,000. The loans, made by the British investor and now quoted by the London Stock Exchange to the whole of the rest of the British Empire, Dominion and Colonial and Provincial governments together, the accumulation of long years of investment in quarters specially favored and specially trusted, stand at round about £500,000,000. The whole of the Corporation and County Stocks of the United Kingdom, quoted on the London Stock Exchange, are worth about £200,000,000. Thus the aggregate of the loans outstanding from the British investor to the governments of the whole British Empire and to the Counties and Corporations of the United Kingdom does not reach £1,000,000,000.

Most of the above loans are Trustee securities by law—a privilege not likely to be granted to a German loan. Let us consider, therefore, a class of investment made without this privilege. The present value of all the loans made by the British investor to foreign governments throughout the world is approximately £400,000,000.

One more example will illustrate to the reader what an amount of capital £1,000,000,000 represents. This figure is the total face value of all the stocks—debenture, preference, and ordinary—of the entire railway system of the United Kingdom (the present market value being about 10 percent less).

The statistics of the present volume of savings in the United Kingdom are not very reliable; but no one would place the total available each year for new foreign investment of all kinds above £150,000,000. Last year it barely reached £100,000,000. The total amount of foreign government loans floated on the London market in the two years 1921-22 came to about £20,000,000 altogether, and these borrowers had to pay on the average nearly 8 percent.

Robbing Peter

Have I quoted enough figures to bring back proportion to the discussion? If Great Britain were to subscribe half of the suggested £1,000,000,000 loan to Germany, it would mean that the whole of the British Empire and all other foreign borrowers could have nothing at all for four or five years. That is the borrowers' side. As for the lender, it means that the British investor would have to go on year after year lending all he had to Germany. We are obviously in the region of the wildest fantasy.

I conclude that, if Germany could borrow on her own credit in the London market £25,000,000 at 10 percent, it would be a remarkable achievement.

What about New York? Recently it has been far more difficult and expensive to float foreign loans in New York than in London. At the present time existing French government dollar loans stand in New York on about an 8 percent basis; and Czecho-Slovak government dollar loans on a 9 percent basis. It is not likely that either of these governments could get much new money in New York even at 10 percent. Yet their credit stands, presumably, higher than Germany's would. The volume of foreign loans made by New York has sunk during the past year to a very low figure, and we have to go back to 1921 and the first half of 1922, when there was a short-lived boom in such securities, to find substantial amounts. But even in 1921 the loans to Europe did not really come to much. France secured on balance $70,000,000 of new money, Denmark $40,000,000, Belgium $25,000,000. But then Great Britain paid off $150,000,000; so that even in 1921 the American investor lent nothing on balance to European governments. The only investments which attracted him on a large scale were pure speculations, such as mark banknotes where he hoped for 100 percent profit and has suffered 100 percent loss. The United States lends Canada a good deal, and a certain amount to Mexico and South America. But probably she has less surplus available for Europe than Great Britain has, and her investors are showing an even greater distaste for this type of investment.

In short, the £1,000,000,000 loan is as nonsensical as General Election Reparation forecasts and as the alleged total of Germany's present balances abroad (also estimated by some at the good round figure of £500,000,000 to £1,000,000,000). Why does such elephantiasis afflict this pitiful subject, that popular estimates are not just two or three times wrong, but generally ten times the truth? Has the peace of Europe ever been threatened before by arithmetical frenzy? It is, truly, an extraordinary state of affairs.

British Guarantee Should Be Ruled Out

I have been speaking so far of proposals to borrow *new* money on Germany's *own* credit. If the loan were to be guaranteed by other powers, including Great Britain, some of the above arguments would not apply. The limit to the sums available for investment abroad would remain the same; but the degree of the investors' willingness to take a hand would, of course, be quite different. I hope, however, that any suggestion of a British guarantee may be ruled out. England must be prepared to make sacrifices in the interests of a settlement. But the idea that if Germany fails to pay the indemnity she should pay it in her place is intolerable.

There still remains, however, a type of loan to which none of my criticisms apply, namely, where no new money is required, but one form of bond is merely substituted for another. The possibility of a transaction of this kind is only limited by the willingness of the holder of an existing bond to accept another in its place. If, for example, the German government were to issue its bonds to the French government, which in its turn passed them on to the French investor, with or without its own guarantee, in exchange for French government bonds previously held, no technical or financial difficulty arises. The Temps has recently aired a proposal by which Germany would undertake to meet the service of the French loans which have been issued to provide for the expenditure on the devastated areas. This is sensible and practicable. There might be political advantages on both sides in getting German bonds well spread amongst the investors of France. But, financially speaking, it is a mere paper transaction; there is no essential difference between the payment by Germany of an annual sum to France for France to use in paying interest to her bondholders, and the payment by Germany to the bondholders direct. It would also be quite simple to substitute German bonds for the existing bonds of Interallied Debt. I do not include transactions of this kind under the designation of International Loan.

No Need of a Lump Sum

The type of International Loan which would be raised in London, New York, and the neutral capitals of Europe and credited mainly to France and Belgium is not only impossible but useless. France and Belgium have no need or employment for a huge lump sum of money. If it were to be credited to them in London and New York, they could do nothing with it except pay off what they owe to the British and American governments (which is not at all what they intend) or lend it out again, thus converting it back from a lump sum into an annual flow. Before the restoration of the war areas had commenced it might have been plausible to argue that a large lump sum of foreign money was required for this purpose. But, in fact, the restoration has proceeded very fast by means of loans raised at home. The financial difficulty of the French and Belgian governments is not in raising the money to pay for restoration, but in meeting the future interest on the loans which they have raised. The financial problem of France—so long, at any rate, as she does not pay what she owes to the governments of England and America—is one of internal, not of external, finance. The insufficiency of the annual revenue of the state to meet the service of her debt involves a constant threat of inflation, and thereby a depreciation of the franc. The remedy for this is not a lump sum of £1,000,000,000 in London and New York, but annual receipts which can be employed to pay her bondholders without resort to inflation. The advocates of an International Loan misconceive the character of

French needs as well as the possibilities of the international investment market.

There is only one qualification to this—namely in the event of the receipts from an International Loan being employed to make annual payments to France and Belgium during a preliminary period whilst Germany was enjoying a moratorium. Such anticipatory payments would be useful to France and Belgium. But a proposal to raise the loan, whilst Germany is still in her present condition and prior to her recovering her credit and giving some tangible proofs of her willingness and capacity to pay, would be faced by even greater difficulties of persuading the foolish investor to risk his money than those already indicated. There can be few investors who would lend a penny to Germany on her own credit, whilst she is in her present plight, and before she can point to definite signs of recovery. The various political risks are far greater than can be compensated by any practicable rate of interest. A very small, half-charitable loan, on the lines projected for Austria, designed to help Germany herself on to her legs again, is surely the utmost to be expected in the near future.

Let us, therefore, dismiss from the discussion the Grand International Loan, and concentrate on the essential question how soon and how much Germany can pay year by year.

JOHN MAYNARD KEYNES.

[This is the second of a series of articles by Mr. Keynes on current European problems. The third will appear in an early issue.—THE EDITORS.]

The Sanctuary of Civilization

FATHER PETRON was almost twenty-three. From the little city of Tréguier on the coast of Brittany some fire of enterprise, matured through long hours of sociological and literary reading, had at last driven him to America. America!—What thoughts, what emotions that word had signified to him, as enclosed behind the high monastery walls in the steep and silent city topped by its famous Gothic cathedral, his thoughts had plied back and forth over the abyss of his loneliness. But if his loneliness was deeper than was altogether comfortable, the resulting sharpness of his perceptions made him all the more alert to every passing quiver of experience. And as he looked far out to the blue waters surging in riotous madcaps toward the rock-bound coast of the famous seaport town which had been the birthplace of the great Renan, he had brooded endlessly over the strange and furious activities of men. Until one day, quite suddenly, he had requested from the lenient Father Superior a month's leave of absence in which to study the institutions of the greatest city of the New World. This sympathetic and urbane priest had even aided him to the extent of writing to the head of their order in New York asking him to act as guide for the sensitive and impetuous young man.

Now that he was driving along so smoothly in a taxicab with his Irish confrère, who, comfortably corpulent, and abounding in placatory gestures displayed none of his own slim austerity and fire, he prepared for those exciting disclosures of modern accomplishment of which he had dreamed.

The car drew up before an imposing white stone building where they alighted. Emerging from the elevator on the thirteenth floor they found themselves in a great oak-panelled anteroom with Persian rugs flung carelessly over a parquet floor, in the centre of which was a large carved Jacobean table presided over by a fashionable young woman with extraordinarily flushed cheeks and delicately plucked eyebrows. While she went in pursuit of a cicerone, Father Petron regarded interestedly an oil painting executed with dexterous technique, which hung opposite the deep plush divan where they were seated. He regretted that the English which served him so well in his reading was useless in conversation and therefore he could not discuss the picture with Father O'Flaherty. In the foreground was a tall, gorgeously dressed young woman with softly rounded figure, eyes sweet, large and insensate, Bougereau-like skin of peaches and cream, and lips curled with the haughty disdain of a mock princess. Behind her towered a young man in immaculate evening dress being aided into his fur-lined overcoat by an obsequious butler. He appeared something between an illustrious pugilist and the languorous author of a superlatively best seller. All the bell-boys and boot-blacks of the world would have regarded him with that dumb aspiring envy that the humble feel for the great. To Father Petron both the young people seemed in some way strangely repellent.

At last the door opened and they were led through a centre door onto a huge floor the length and breadth of the building which seemed a veritable palace of resplendent light. Everywhere splashes of sunshine poured through great plate glass windows over intent figures of men and women, girls and boys, occupied at endless desks over apparently absorbing researches. At the far end of the room Father Petron saw through an open door a tiled laboratory with testing tubes, scales, an elaborate gas stove and mysterious cabinets, and it flashed upon him with a sudden certainty that this at last must be one of those