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CHINA, AMERICA
AND
INTERNATIONAL
FINANCIAL READJUSTMENT

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"Our Eastern Question,"

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China, America and International Financial Readjustment

In respect of measures calculated to ameliorate the present situation of China by action of the Conference on the Limitation of Armaments and Pacific Ocean and Far Eastern Questions, two points have been suggested:

- (a) An undertaking by the Powers to proceed without delay to readjust all foreign "concessions" in China in accordance with the Principles already agreed to by the Conference, viz: the Ten Proposals of China, and the Four Proposals of the American Government.
- (b) China's foreign financial obligations to be placed in the same category as other international indebtedness in case there hereafter is a readjustment of same, or an international moratorium.

The meaning of these suggestions perhaps requires some elucidation. The essence of them is that in case there is an international conference, or commission, convened to examine, ascertain the equities of, and to readjust international credits and obligations with a view of restoring and stabilizing industry and commerce, that China's foreign obligations and commitments of an economic character will be included within the purview of such a Conference and of its acts.

It is likely that such a Conference will be called soon; probably within a short time after the Armaments and Far East Conference has adjourned. The American Government so far has declined suggestions that the Armaments and Far East Conference would discuss international finances; it has refused to commit itself regarding the debts due to the United States by other Powers until the positions of those Powers visavis armaments and Pacific

Ocean and Far Eastern questions are disclosed. But the question of a readjustment or liquidation of international financial obligations remains suspended among the greater issues that demand prompt action.

In respect of this question of international financial liquidation the United States holds the key. There can be no readjustment except with the consent of the American Government, because the American Government is almost the only creditor nation among the Powers. All of the Powers except Japan owe vast amounts to the United States which they cannot pay now, and which it may be that they never will be able to satisfy in terms of finance. But the same general Rule applies to international debts which applies to corporation and private debts. If a debtor cannot pay in money, whatever it has in the way of property is liable to seizure in liquidation. If nations cannot pay their debts by financial process, whatever other assets they possess thereupon become liable to seizure in liquidation. The assets of a nation roughly may be classed as revenues, resources and territory.

The practical application of this Rule to the case of China is pertinent. In security for foreign debts China has been required to give liens on and supervision of her means of revenue, concessions involving her natural resources and communications, and leases of her territory. The Rule has been applied to China without abatement in principle, although sometimes relaxed in practice. **The Rule as applied to China is that she must fulfill her foreign obligations or surrender some of her assets to foreign administration or control.**

The Rule and Other Nations

Turn to other nations. If the Rule as applied to China should be applied to other nations, then in case Great Britain and France and Italy (to limit the illustration) do not or

cannot pay their debts to the United States, then the American Government legally and morally is justified in demanding other forms of compensation, such as concessions, or territory.

If a private person CANNOT pay his debts it is termed *baukrupctcy*: if he WILL NOT pay his debts it is regarded as dishonest.

If a State cannot pay its debts it is insolvent: if a State will not pay its debts it is termed repudiation.

A person who because of misfortune or incompetence or oppression cannot pay his debts is entitled to and usually obtains sympathy and pity. A person who can but will not pay his debts is not entitled to sympathy, and rigorous methods to collect such debts are considered to be justified.

There may be sympathy for a weak nation which cannot pay its debts, but is willing to pay them. But a Power which cannot pay its debts thereby raises presumptions against its pretensions of being a Power. A Power which will not pay its debts should be made to pay them or lose its rating as a Power, and if it has any assets they should be taken in liquidation of the debts.

Many nations are in debt to the United States now; but for purpose of illustration I will confine comparisons to the principal debtor Powers and to those nations which have "interests" or possessions in the Far East and China. This is not intended as a mathematical demonstration; therefore the figures used are not presented as accurate, although they approximate the real figures.

Roughly, nations which are participating in the Armaments and Far East Conference owe the United States Government \$12,000,000,000 principal and interest. A recent published statement showed that over \$1,000,000,000 **arrears of interest** is due, and the debtor nations are falling in arrears of interests at the rate of about

\$1,700,000 a day. What this means to the United States may be comprehended by saying that if these debts were paid now the American people need pay no national taxes for four or five years; or the United States could build a navy equal to the combined navies of Great Britain and Japan and still have to collect no taxes for three years.

Recently the Chinese Central Government was unable to meet on its maturity a small debt to an American Bank; whereupon there was much criticism concerning China's insolvency, and it even was mooted that China's position in the Washington Conference would be impaired by the circumstance. Yet Powers sitting in the same Conference owe billions to America on which they are not even paying interest, and no suggestion was made that this fact should impair their positions in the Conference. China is restricted and cramped in her fiscal administration by conditions imposed by those same Powers so that she cannot make her revenues meet her costs of administration, and also pay heavy indemnity exactions to those same Powers. China is hindered by the existence of foreign "concessions" and the limitations imposed on her by the "sphere of influence" Powers from freely developing her own natural resources and building up a modern material prosperity which soon would relieve her financial stringency.

Several suggestions have been advanced regarding the liquidation of the debts of the Powers to America. One suggestion has the merit of extreme simplicity; it is for the American Government to cancel the debts—to make the other Powers a present of what they owe us, unconditionally.

Another suggestion is termed "readjustment." This plan is to have all the so-called "Allies" nations mutually wipe off their debts to each other.

Let us examine this readjustment plan. Great Britain owes to the United States about \$7,000,000,000 and other

nations owe Great Britain a little less than that amount. Therefore this mutual forgiving of debts would leave Great Britain about even on the transaction, and would clear up her books; British finance and trade would revive rapidly. The readjustment plan has a further advantage for Great Britain; she cannot well afford either to become insolvent by failing to pay, or to repudiate by refusing to pay her debts to America. Great Britain has assets which under those circumstances the United States might demand in liquidation—Canada for instance. On the other hand, a good part of what is due to Great Britain from the other “ally” nations may be classed as dubious and perhaps uncollectable and unrealizable. So by cancelling dubious debts Great Britain would relieve herself of a debt to America which is collectable from her in one form or another.

France, Italy and Belgium each owe more than they have debts due them as offsets. Those nations would gain hugely by the “wipe off” plan.

Finance—Political and Economic

America does not owe anything to other nations. By the “wipe off” plan America is the only creditor—she pays the whole bill.

It is argued that it is good “business” for America to wipe off these debts, for that will revive foreign trade. If we let the other nations off from paying us that money, they will be able to buy from America great quantities of goods, and industry and commerce will revive quickly. There is something in that argument: but to the writer it is not altogether clear that America surely will profit by the deal. In ordinary trading, if one has goods to sell and gives a prospective customer the money with which to buy one’s goods, it amounts to the same thing as giving him the goods; and if after one has given away the money, the cus-

tomers goes across the street and buys in another store, that, as Abe Potash would say, "is something else again." It might be that a part of or all of the capital thus restored to other nations would be used to build up and extend their economic communications with other countries in competition with American trade. It even might be used to develop the "interests" of those nations in China under their "sphere of influence" system, to the relegation of the Open-Door and the handicapping of American opportunity in China.

There is something to be said for the policy of "wipe off" in business; of liquidation, of cleaning things up and taking a fresh start. It may be a good thing all around to accept a man's plea in bankruptcy and allow him to begin again with a clean slate. But if the creditors learned that the bankrupt was buying expensive motor cars, and keeping a mistress and a yacht, they probably would feel differently toward him. How a bankrupt spends his time and his money have a bearing on his claim for leniency and on his chances to "make good" afterward.

There, however, is a fallacy in discussing this question of international financial readjustment in economic terms exclusively. These debts of the Powers to America were not incurred as economic transactions. **The debts were incurred by the Powers, the loans were made by the United States, for political reasons solely.** Since political considerations provided the reason for creating the debts, it seems to follow logically that political considerations inevitably are involved in their liquidation.

The policy of the American Government and the ideals of the American people are opposed to war and to excessive armaments. It properly is argued that the American people should not consent to be taxed to maintain excessive armaments. Yet it is proposed to present certain Powers with a vast amount of money that is due to America when

it is known that a great part of it, or its equivalent, will be spent on armaments. In order to give this immense amount to those nations the American people will have to tax themselves that much more. Is there any difference in morals between Americans taxing themselves for their own armaments and taxing themselves to pay for the armaments of foreign nations?

Furthermore, by the process of taxing Americans to support FOREIGN armaments, it is possible that they may be taxing themselves to support armaments which may be used to contradict and defeat the liberal policies of the American Nation, and to strengthen alliances which undermine the security of America. The Anglo-Japanese Alliance is a case in point. A few days ago Lord Northcliffe telegraphed from China to an American newspaper as follows:

“The Anglo-Japanese Alliance is the sharpest sword in the hands of the war party of Japan. Under the cover of this alliance the war party of Japan spends more than half of the people’s income on the Navy, Army and fortifications. Japan’s past arrogant attitude toward the United States would not have been possible without this alliance. The Chinese, who detest this alliance as much as Americans and the British in the Orient do, blame Great Britain for their sufferings at the hands of Japan. One bad result of the alliance is the attitude of the war party toward the desire of Japanese for real democratic government. Owing to the strength of the war party, the right of the people to hold public meetings and the freedom of the press are at the mercy of police and censors controlled by the military party. . . . Kill the Anglo-Japanese Alliance and you will rob the military party of half its power, though they will want watching this year, next year, and many years to come.”

It is announced that the British Government intends to spend a large amount on a naval base at Singapore. In conjunction with the Japanese naval bases in the Far East, American naval operations in those oceans thereby will be circumscribed. It is not pretended that Americans have a right to dictate to the British Government how it will spend its revenues; but Americans have something to say about how **American revenues** will be spent by the British Government in naval combinations which directly affect the most important foreign policy of the American Government.

What is called the Hay Doctrine today is the most important foreign policy of the United States. It has superceded the Monroe Doctrine in importance by reason of world developments and tendencies which have diminished the dangers apprehended by Monroe and have given growth to new and more imminent dangers in the Pacific. The linking of Pacific Ocean and Far East questions with the question of limitation of armaments by the American Government is a concrete recognition of these changes.

The fiction that, now that the war is over, the huge "Allies" debts to America should be treated on a purely economic basis and readjusted on that basis should be given no credence. Those debts usually are termed "inter-Allies" obligations, probably in order to cover them with a veil of thoughtless sentiment. Yet there is something in the term "inter-Allies obligations" that really is pertinent now. The money was loaned to help nations allied with us, or rather associated with us in war. All the more reason why theoretically it might remain on that basis in any readjustment, and not be used to strengthen combinations or to promote policies inimical to American security, interests and ideals. There is a difference between loans to "Allies," and giving

money to nations that are combined with other Powers against America or to Powers which oppose the major propositions of American foreign policy.

China and Readjustment

China's foreign debt roughly can be placed at \$1,500,000,000. Of this about \$350,000,000 is for indemnities; mostly due to the "boxer" disorders in China (1900), and the indemnity exacted by Japan after the China-Japan war. Incidentally, the United States long ago forgave China the part of the "boxer" indemnity allotted to America that remained after legitimate American claims were paid. About \$250,000,000 is still due to the other Powers—Great Britain, France, Italy, Japan, Belgium, Russia—of that "boxer" indemnity. China already has paid more than fair compensation (compared with the adjustment regarded as equitable by America) for actual damages done to foreigners' life and property by the "boxer" rioters, and still owes nearly as much as she did when the indemnities were first assessed, because of accrued interest. If the other nations would adopt now the policy which America has pursued it would be a great relief to China and would help restore her fiscal solvency and stability.

In any readjustment of "inter-Ally" indebtedness Japan probably will not be included unless Russia and China are brought into the settlement. In this connection it should be remembered that China is an "Ally"; having, chiefly on the urging of the United States, declared war on Germany and Austria in 1917.

"What a magnificent gesture" remarked a French statesman apropos the suggestion that America shall "wipe off" what is due her from our former associates in war. But the proposal as it is conceived in England and Europe, so far as I have observed, is limited to Europe and England

in application: it does not include members of the "Allies" in Asia.

Why that limitation? The "wipe off" round robin does not include China, it seems. Great Britain is to forgive France and Italy and Belgium; France is to forgive Belgium and perhaps Italy (but not Germany); Italy is to forgive (?); and America is to forgive them all.

Except China! Why except China?

It is as important to America to establish and maintain tranquillity in the Far East and in the Pacific Ocean as it is to accomplish those results in Europe. A process which perhaps may stabilize one-half of the world while leaving the other half unstabilized hardly can be regarded as complete. The American nation faces TWO continents across two oceans; and at this moment it is from the Asian continent and across the Pacific Ocean that the more serious portents of danger come. If the American people are to forgive to England and Europe (which means tax themselves) the sum of twelve billions of dollars, why not make the transaction cover our other national exposure by spreading it out a little?

Suppose the American Government should propose to the Powers that they will submit all their monetary claims against China and concessions in China from which the Chinese want to be relieved and which are contradictory to the Open-Door to the appraisal of an international commission of experts, and when the total amount thus is fixed, to credit it against the debts of those nations to America. That would reduce the debts of those nations to America, and would make China owe it instead. Then if America should want to readjust the "inter-Allies" obligations on a "wipe off" or any other basis, the process would include China and extend the alleged beneficent influence of the action to the Far East as well as to Europe.

If such a proposal should be made by the American Government I rather expect that some of the debtor Powers would raise objections; that they will want to "beg off" their debts to America, but will not want to be equally reasonable and generous with respect to China's obligations to them. Yet it is clear that such a policy and action almost immediately would relieve the existing fiscal embarrassment of China, tend to restore tranquility there by removing the principal causes of international friction in China, give a tremendous stimulus to China's commerce and peaceful industrial development, and the trade of all foreign nations with China.

And if the American Government should make such a proposal to the Powers, and they should decline to assent to it, what reasons would they give for so declining?