

### Why Britain Did Not Pay

[Note: The following article on the British War Debt to the United States of America appeared in the London Daily Express, owned by the author, Lord Beaverbrook, the well-known Canadian London publisher.]

Britain's debt to America has long been a subject of controversy in the United States. Criticism of Britain has been severe. Yet that criticism arises entirely out of misconception and misunderstanding. It is only necessary to give authoritative explanation of the difficulties in order to dissipate the violent attacks on the British Exchequer that spring from ignorance.

First of all, dealing with the history of the debt and the settlement, it is easy for me to give an account, although much prejudice existed at the time. In 1912, the debt amounted more or less to 4,000 million dollars. The money was borrowed from the United States after America entered the war, and at the time when questions of settlement arose other countries owed Britain 4,000 million dollars.

Now, when peace came to the world the belief was general in Britain that the United States did not expect or exact a settlement. This conviction was due to the utterance of President Wilson, who had said that there was to be no profit from the war, and in April, 1917, addressing both houses of Congress, he declared that "We seek no material compensation for the sacrifices we shall freely make." ("The Inter-Ally Debts," published by the Bankers Trust Company of New York.)

Viewed as Compensation  
The declaration was in harmony with other statements by American public men. Speakers in Congress had strengthened the conception in Britain that in America's eyes the debt was a contribution made by the United States to a common cause.

Here are some typical utterances made at the time the debt was incurred:

Senator McCumber: "We ought to be mighty liberal in the expenditure of money when we can take no part in the real battle which to-day is the battle of the American people."

Senator Smoot: "Every dollar expended under the provisions of this bill will be for the benefit of the United States."

Senator Stinson: "I hope that one of these loans will never be paid and that we will never ask that it be paid. I never want to see this government ask France to return the loan we may make her."

Senator O'Grady: "I am perfectly willing to give to any of the allied nations the money which they need to carry on our war, for it is now our war. I would give it just as freely as I would equip our army or maintain our navy."

Representative Mondell: "We can (by the advance) effectively and in the immediate future, arm, strengthen and support those who are since our declaration of war fighting our battles."

Representative Mann: "I think it is our highest duty in the making of war to give aid to those who are fighting the enemy against whom we have declared war."

Fordney's Opinion  
Representative Fordney: "Their (the advances) only purpose is to aid them in the best way possible to fight our battles across the sea without calling upon our men to go there."

Representative Madden: "We are starting out to win a victory, as I understand it, to maintain American rights and if we can maintain American rights by furnishing money to somebody willing to fight our battles until we are prepared to fight our battles for ourselves, we ought to do it."

These quotations are taken from The Daily Colonist of Vancouver, and in "The Inter-Ally Debts" of the Bankers Trust Company of New York there were other public utterances by prominent Americans in the same vein.

For example, General Pershing has said: "If it had not been that the Allies were able to hold the line for fifteen months after we had entered the war—hold them with the support of the loans we made—the war might have been lost. We scarcely realized what those loans meant to them and to us. It seems to me that there is some middle ground where we should bear a certain part of the expense in maintaining the Allies' armies on the front while we were preparing, instead of calling all the money a loan and insisting upon its repayment."

"We were reasonable. We gave the money knowing it would be used to hold the Boche until we could prepare fifteen months. Think of it!"

Clearly there is a great contrast between Pershing's view and that expressed by President Coolidge. For while Coolidge said "They hired the money," Pershing said, in effect, "We hired the soldier."

Distribution of Burden  
Pershing and the American legislators in 1917 envisaged the war as a joint undertaking. If that is how we must regard it, then the burden was unequally distributed.

Figures drawn from an American source ("The Inter-Ally Debts," page 21) illustrate this: The gross cost of the war in percentage of the national wealth was: Great Britain, 24.48; America, 2.87. The actual cost of the war in percentage of national income was: Great Britain, 26.22; America, 12.50. The battle deaths

in percentage of population were: Great Britain, 1.44; America, .08.

With such utterances and such facts in their minds the British delegates at the Peace Conference formed high hopes of the American attitude toward the debt.

It must be said that the American official spokesmen did nothing to encourage this British opinion. At the same time the American attitude toward reparations gave by inference a measure of support to British optimism. Britain asked that "war costs" should be included in the bill for reparations to be presented to Germany. The American representatives said that only compensation for "war damage" could be asked from the Germans.

The American point of view pressed with vigor, prevailed. (Bernard Baruch, "The Reparation and Economic Sections of the Treaty," page 21 to 26.)

Now, the debts to the United States were plainly one of the "war costs" of the Allied powers. The United States was, therefore, impugning its debtors' power to pay. And by preventing the British claim on Germany for those "war costs" the Americans allowed the inference to be drawn that the debt might be regarded as a dead letter.

There was surprise then when, a few years later, the Americans began to press for a settlement of the debt. In fact, in 1919, when President Wilson's administration was still in office, American businessmen, especially American businessmen in New York, especially American businessmen, made it plain in their presentations over and over again that the payment of private debts by Britain to the United States would discharge Britain's obligations. Nothing was expected from the accumulated war debts for many years to come.

Claims Not Impaired  
It must not be supposed that it is urged or alleged that these representations interfered with or impaired the United States Government's right to claim repayment of the debt. They did, however, create confidence in Britain that reconstruction would go forward without any interference on account of these responsibilities. It was only when the change of Administration came in the United States in 1921 that the demand for settlement of the debt began to be pressed upon Britain.

The first American request for a funding of the debt was not made until 1922, and Mr. Andrew Mellon was responsible for the decision to press for a settlement of the loan.

When the pressure was being put on the British Government to take up the question, Lord Balfour, who was Secretary for Foreign Affairs in the Lloyd George government, wrote a note. In it he said in effect what we owe to the United States arises from the money which others have borrowed from us; we have been only the intermediaries.

Now, this was a misstatement. Britain had been in the position not of an intermediary but of a banker who received deposits and made loans. But the mistake was Balfour's mistake. It was not the error of the British nation. The note was written at a time when Balfour was growing very old. His usefulness had passed. And Britain should not be held responsible for his statement. It should not be held against the British people. Yet Britain has never had a fair consideration of the argument in the Balfour note because of the misstatement. American opinion was concerned with the misstatement and not with the argument.

There now came a change of Premiership in Britain and a general election. Lloyd George went out, Bonar Law came to power. Under pressure from Washington he sent Mr. Baldwin to negotiate in the United States. But he gave him directions to return after making an examination of the position. He made his own views perfectly plain: a settlement must depend on some other method of satisfying the United States than the transfer of money. The debt could not be paid in gold. Britain had no gold to send. It could not be paid in an increased sale of British goods. The United States would not take more goods. And it could not be settled by means of the trade balance. For the trade balance was against Britain.

Willful But Unable  
Bonar Law's position was that of a debtor willing to pay, but requiring that payment be adjusted both in form and amount to the debtor's capacity to pay. This principle has since been adopted by the United States. In 1925 the United States War Debts Commission stated that the capacity to pay should be taken into account in considering the funding of foreign debts ("Reports of the United States War Debts Commission," page 37). This was what Bonar Law asked for.

It has sometimes been said—although Bonar Law did not deal with this possibility—that Britain should part with other assets in settlement of the debt. For instance, Bermuda and the British possessions in the Caribbean.

Without discussing the merits of this proposal from the British standpoint let it be said at once that no United States Government has ever been willing to open up negotiations on such a basis. Every succeeding President has opposed any such acquisition. The American Administration do not want any more island possessions. The era when the Danish Islands were purchased by the United States for 25 million dollars has

was never passed. The President of the United States prefers to leave the responsibility for the Caribbean Islands with the British Government.

So Bonar Law as I have said, never considered the transfer of British islands to United States ownership and he gave no instructions on that point to his emissaries. But when Baldwin left for the United States, Bonar Law made the position that Britain could pay only according to its capacity perfectly clear to the American Ambassador and also in public statements to the American newspapers. He deliberately called in a newspaper reporter on the eve of Baldwin's departure to make his views plain to the people of the United States themselves.

Baldwin went to Washington. He discussed a settlement involving a negotiation of the debt by means of money payments. This was impossible. It meant a transfer of about 30 million sterling of gold a year. And Britain had in hand only 120 million sterling of gold coin and bullion. This was less than the pre-war gold stock held at the time by the public as well as the Bank. Any depletion of it was quite impossible in a country where the gold standard still prevailed, where the note issue was based on gold values.

Baldwin was forbidden by his instructions from making a settlement. He was permitted only to discuss terms. But he went further than his instructions. He recommended a settlement. He did not wait to consult his Cabinet colleagues in Britain. When he came home he made a statement on his arrival at Southampton that the terms he brought back were the best that could be got and ought to be accepted.

By doing so he committed his colleagues to the settlement. A political crisis followed at once. Baldwin had either to get his settlement through or resign. Having made his statement, there was no way out. His resignation meant the breakup of the government.

That was the position that confronted Bonar Law. If he maintained his opposition to the Baldwin settlement his Cabinet would split. And there would be another general election with his Conservative party divided and shattered at the polls. Most of Bonar Law's colleagues were in favor of the settlement. The weight of Cabinet opinion was on that side. And those of his political friends who opposed the settlement were handicapped by the fact that Bonar Law was in bad health. They could not subject him to the stresses of a political struggle. So Bonar Law was prevailed upon to accept the Baldwin position under protest.

Other Opponents  
It has often been represented that I was the only opponent of the settlement at that time. This is not so. There were other opponents. Mr. Winston Churchill, Mr. Reginald McKenna and Mr. J. M. Keynes.

Within the short space of eight years after the Baldwin settlement when some 2,000 million gold dollars had been transferred by Britain to the United States, a financial crisis broke out in Britain, as it was bound to do sooner or later. A great riot took place. Foreigners removed their balances. The Treasury continued to pay. It borrowed 50,000,000 pounds from France and the United States.

But the riot continued. And in the end Britain was compelled to abandon the gold standard. There was no gold left. The debt, of course, was not repudiated. But there was a failure to pay, due simply to the bankruptcy of the British treasury and the disappearance of the gold. It was bankruptcy, not repudiation. It was a misfortune, not a crime. The allegation had arisen of which Bonar Law had clearly and emphatically warned the United States at the time the settlement was made.

Britain and the United States had a joint responsibility for depleting the British treasury. From the making of the settlement to the failure to pay, 2,000 million dollars of money had been transferred from Britain to the United States. The United States knew the debtor's condition, and yet exacted payment of the debt. In the end debtor and creditor shared the responsibility for emptying the British till.

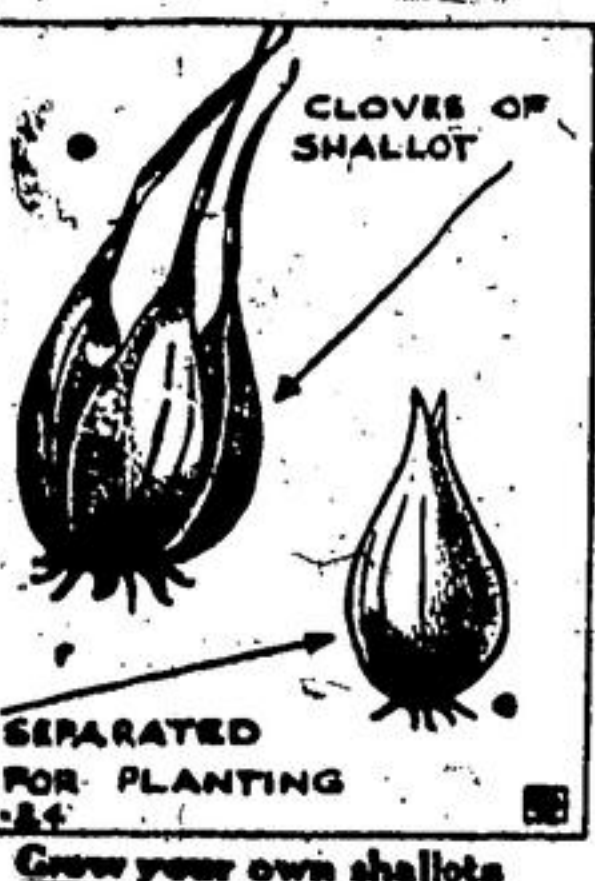
There were left the goods on Britain's shelves. The creditor did not take these. He did not want them. The United States had plenty of goods on her own shelves. The trouble was she could not get buyers for them. Nor would the United States take American securities in the hands of British investors. "The last thing in the world she wanted was to have those securities liquidated at a time when the American market was falling heavily. Indeed, it was looked on as an unfriendly act if foreigners offered to sell American securities on the New York market. And this was a view which was strongly pressed upon Britain by the Americans."

But now came another chapter in the story of misfortune. Financial collapse in the United States.

We Had Gold  
This was different from the British crisis. The United States experienced financial disaster at a time when the country had plenty of money. She had lots of gold in her vaults. When the crash came gold stocks amounted to 4,000 million dollars. When the crisis was over the United States, although she had gone off the gold standard, had increased her holding of gold.

Remember the distinction between the British crisis, when the gold was all gone and British credit was ruined, and the American crisis, when the gold amounted to 4,000 million dollars and

Weekly Garden-Graph  
Written by DEAN WALLIDAY for Central Press, Canada



Grow your own shallots  
Shallots, so popular in England, are growing in popularity in this country. Nowadays one often sees them mentioned in recipes and listed upon menus. Since shallots are milder in taste than their cousin, the onion, many people would use them if they knew they could grow their own.

As shown in to-day's Garden-Graph, the parent bulb of the shallot grows in "cloves." The "cloves" should be separated before planting.

In England, the shallot bulbs are planted by merely pushing them into the soil to half their depth. In this country most people plant them in drills two inches deep in the same manner that onion sets are planted.

When the tops wither, the shallots are mature and should be dug up. Allow them to dry in the sun before storing.

had increased in 1924, when the crisis was over, to 8,000 millions.

But in face of this large stock of gold—4,000 millions in gold dollars—British citizens who held American bonds pledging payment in gold dollars were required to take paper dollars, after these paper dollars had fallen heavily in value.

By this means about 40 per cent. of America's debt in the hands of British bondholders was repudiated. And the stocks of gold in the United States belonging to British companies and citizens were taken over by the United States Treasury in exchange for paper dollars. In London, on the other hand, gold holdings belonging to American banks, companies and individuals were not disturbed.

After this default of the United States in 1933, we came to the period of reconstruction in Britain. This went on peacefully, but only for a short time. For by the autumn of 1933 it was plain that Britain was faced by a menace much grimmer and more serious than any financial trouble—the menace of Germany rearming for war, preparing for battle.

Britain was therefore compelled to collect, to husband, to hold fast all the gold she could possibly mobilize against the day of war.

And there she stands at this hour of battle array. She has gold reserves, no doubt very considerable, but all destined for shipment to the United States. There she will part with her accumulated resources in exchange for weapons of war.

There is no reflection on the United States in this narrative. It is a concise account by one who has been through these events, told in the hope that it may modify criticism in the American continent. It is desirable, too, that explanations of British policy should be made to the Canadian public.

The account is written at a moment when British faces new and terrible dangers in a cause whose victory will be a triumph for all men who love freedom and democracy. And it is written in the complete and absolute conviction that Britain will emerge from these present trials to resume her ancient security, to pursue peaceful occupations and to rise again to financial dignity; seeing her obligations without destroying the livelihood of her people and the prosperity of the world.

SWANS VISIT WATERTON LAKES NATIONAL PARK

Unusually large migrations of whistling swans occurred this spring in the Waterton Lakes National Park, Alberta, according to reports received by the Department of Mines and Resources, Ottawa. The first appearance of the swans was recorded on March 24th, when 150 were counted on the Maskinonge and Lower Waterton Lakes. Two days later about 200 of these birds were observed. The swans were in their nesting grounds in the Arctic and seemed to stay in the park for only a day or two before continuing their northward journey.

Several species of waterfowl pass through Waterton Lakes National Park arrivals were small flocks of wild ducks during spring migration. The earliest noticed on March 13th, and on March 27th thousands of these birds, mostly Baldpates, appeared and stayed for a day in the park.

AND THE ANSWER?  
We ask a simple question. And truth is all we wish. Are fishermen all liars. Or do only liars fish?

AMEND NATIONAL PARK FISHING REGULATIONS  
Amendment of the fishing regulations to provide free angling to visiting motorists in the mountain parks is announced by Hon. T. A. O'Rear, Minister of Mines and Resources.  
As visitors to Banff, Jasper, Yoho, Kootenay and Waterton Lakes National Parks pay for their transient motor license at the park gate they may at the same time receive, free of charge, an authority which will grant the licensee and his dependent family the right to fish in the park. In return for this privilege the fisherman is asked to report his catch to the park authorities so that information concerning fishing conditions in the various park waters may be available.  
The new regulation applies to visiting motorists from both Canada and the United States.

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Canadian Military Attache in Paris



Major-General L. R. LaFleche, Canadian military attache in Paris and formerly Deputy Minister of National Defence at Ottawa, is shown here signing the registry book after laying a wreath at the tomb of the unknown soldier in Paris. In the Centre is General Herblin, Commander of troops in the Paris area.

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