

## LORD BALFOUR'S NOTE ON INTER-ALLIED DEBTS.

On August 1 the Government of Great Britain, through the foreign office, communicated a note, signed by the Earl of Balfour, to the French ambassador in London and to the diplomatic representatives of the Governments of Italy, Yugoslavia, Rumania, Portugal, and Greece. In this document, which deals with the inter-allied indebtedness, the Government of the United States is not directly addressed, but this Government is referred to, and the British Government, therefore, as a matter of courtesy, sent a copy of the note to the American ambassador in London for transmission to Washington. The complete text of the note follows:

**YOUR EXCELLENCY:** As your excellency is aware, the general question of the French debt to this country has not as yet been the subject of any formal communication between the two Governments, nor are His Majesty's Government anxious to raise it at the present moment. Recent events, however, leave them little choice in the matter, and they feel compelled to lay before the French Government their views on certain aspects of the situation created by the present condition of international indebtedness.

Speaking in general terms, the war debts, exclusive of interest, due to Great Britain at the present moment amount in the aggregate to about £3,400,000,000, of which Germany owes £1,450,000,000, Russia £650,000,000, and our allies £1,300,000,000. On the other hand, Great Britain owes the United States about a quarter of this sum—say, £850,000,000 at par of exchange, together with interest accrued since 1919.

No international discussion has yet taken place on the unexampled situation partially disclosed by these figures; and, pending a settlement which would go to the root of the problem, His Majesty's Government have silently abstained from making any demands upon their allies, either for the payment of interest or the repayment of capital. But if action in the matter has hitherto been deemed inopportune, this is not because His Majesty's Government either underrate the evils of the present state of affairs, or because they are reluctant to make large sacrifices to bring it to an end. On the contrary, they are prepared, if such a policy formed part of a satisfactory international settlement, to remit all the debts due to Great Britain by our allies in respect of loans, or by Germany in respect of reparations.

Recent events, however, make such a policy difficult of accomplishment. With the most perfect courtesy, and in the exercise of their undoubted rights, the American Government have required this country to pay the interest accrued since 1919 on the Anglo-American debt, to convert it from an unfunded debt to a funded debt, and to repay it by a sinking fund in 25 years. Such a procedure is clearly in accordance with the original contract. His Majesty's Government make no complaint of it; they recognize their obligations and are prepared to fulfill them. But evidently they can not do so without profoundly modifying the course which in different circumstances they would have wished to pursue. They can not treat the repayment of the Anglo-American loan as if it were an isolated incident in which only the United States of America and Great Britain had any concern. It is but one of a connected series of transactions in which this country appears sometimes as debtor, sometimes as creditor, and, if our undoubted obligations as a debtor are to be enforced,

our not less undoubted rights as a creditor can not be left wholly in abeyance.

His Majesty's Government do not conceal the fact that they adopt this change of policy with the greatest reluctance. It is true that Great Britain is owed more than it owes, and that, if all interallied war debts were paid, the British treasury would, on balance, be a large gainer by the transaction. But can the present world situation be looked at only from this narrow financial standpoint? It is true that many of the allied and associated powers are, as between each other, creditors or debtors, or both. But they were, and are, much more. They were partners in the greatest international effort ever made in the cause of freedom; and they are still partners in dealing with some, at least, of its results. Their debts were incurred, their loans were made, not for the separate advantage of particular States, but for a great purpose common to them all, and that purpose has been, in the main, accomplished.

To generous minds it can never be agreeable, although, for reasons of State, it may perhaps be necessary, to regard the monetary aspect of this great event as a thing apart, to be torn from its historical setting and treated as no more than an ordinary commercial dealing between traders who borrow and capitalists who lend. There are, moreover, reasons of a different order, to which I have already referred, which increase the distaste with which His Majesty's Government adopt so fundamental an alteration in method of dealing with loans to allies. The economic ills from which the world is suffering are due to many causes, moral and material, which are quite outside the scope of this dispatch. But among them must certainly be reckoned the weight of international indebtedness, with all its unhappy effects upon credit and exchange, upon national production and international trade. The peoples of all countries long for a speedy return to the normal. But how can the normal be reached while conditions so abnormal are permitted to prevail? And how can these conditions be cured by any remedies that seem at present likely to be applied?

For evidently the policy hitherto pursued by this country of refusing to make demands upon its debtors is only tolerable so long as it is generally accepted. It can not be right that one partner in the common enterprise should recover all that she has lent, and that another while recovering nothing, should be required to pay all that she has borrowed. Such a procedure is contrary to every principle of natural justice and can not be expected to commend itself to the people of this country. They are suffering from an unparalleled burden of taxation, from an immense diminution in national wealth, from serious want of employment, and from the severe curtailment of useful expenditure. These evils are courageously borne. But were they to be increased by an arrangement which, however legitimate, is obviously one-sided, the British taxpayer would inevitably ask why he should be singled out to bear a burden which others are bound to share.

To such a question there can be but one answer, and I am convinced that allied opinion will admit its justice. But while His Majesty's Government are thus regretfully constrained to request the French Government to make arrangements for dealing to the best of their ability with Anglo-French loans, they desire to explain that the amount of interest and repayment for which they ask depends not so much on what France and other allies owe to Great Britain as on what Great Britain has to pay America. The policy favored by His Majesty's Government is, as I have already observed, that of surrendering their share of German reparation, and writing off, through one great transaction, the whole body of interallied indebtedness. But, if this be found impossible of accomplishment, we wish it to be understood that we do not in any event desire to make a profit out of any less satisfactory arrangement. In no circumstances do we propose to ask more from our debtors than is necessary to pay to

our creditors. And, while we do not ask for more, all will admit that we can hardly be content with less. For it should not be forgotten, though it sometimes is, that our liabilities were incurred for others, not for ourselves. The food, the raw material, the munitions required by the immense naval and military efforts of Great Britain and half the £2,000,000,000 advanced to allies were provided not by means of foreign loans, but by internal borrowing and war taxation. Unfortunately, a similar policy was beyond the power of other European nations. Appeal was therefore made to the Government of the United States; and under the arrangement then arrived at the United States insisted, in substance if not in form, that, though our allies were to spend the money, it was only on our security that they were prepared to lend it. This cooperative effort was of infinite value to the common cause, but it can not be said that the rôle assigned in it to this country was one of special privilege or advantage.

Before concluding I may be permitted to offer one further observation in order to make still clearer the spirit in which His Majesty's Government desire to deal with the thorny problem of international indebtedness.

In an earlier passage of this dispatch I pointed out that this, after all, is not a question merely between allies. Ex-enemy countries also are involved; for the greatest of all international debtors is Germany. Now, His Majesty's Government do not suggest that, either as a matter of justice or expediency, Germany should be relieved of her obligation to the other allied States. They speak only for Great Britain; and they content themselves with saying once again, so deeply are they convinced of the economic injury inflicted on the world by the existing state of things, that this country would be prepared (subject to the just claims of other parts of the empire) to abandon all further right to German reparation and all claims to repayment by allies, provided that this renunciation formed part of a general plan by which this great problem could be dealt with as a whole and find a satisfactory solution. A general settlement would, in their view, be of more value to mankind than any gains that could accrue even from the most successful enforcement of legal obligations.

I have, etc.,

BALFOUR.

### MEMBER BANK ACCEPTANCES.

A reduction of over 25 per cent in the volume of outstanding member bank acceptances between June 30, 1921 and 1922, is indicated by the condition reports of all member banks received by the Comptroller of the Currency and the Federal Reserve Board. By March 10 of the present year the total had declined to \$316,755,000, while on the most recent call date the total showed a small increase to \$320,770,000, due to the increase in acceptance liabilities reported by national banks outside of New York City. Nearly 60 per cent of the total acceptance liabilities of all member banks is represented by the acceptance liabilities of member banks in New York City.

In the following tables are shown acceptance liabilities of national and other member banks in principal and other cities, also totals for all member banks on all call dates between June 30, 1921 and 1922, in continuation of similar figures published on page 514 of the May, 1922, BULLETIN:

### ACCEPTANCE LIABILITIES OF NATIONAL AND OTHER MEMBER BANKS.

[In thousands of dollars.]

Class of banks and city.	June 30, 1921.	Sept. 6, 1921.	Dec. 31, 1921.	Mar. 10, 1922.	June 30, 1922.
<i>National banks.</i>					
New York.....	142,620	122,638	111,724	103,661	98,180
Buffalo.....	768	568	512	341	70
Boston.....	33,697	25,949	35,332	28,339	33,208
Providence.....	404	303	518	110	306
Philadelphia.....	10,402	9,463	10,539	10,146	13,198
Pittsburgh.....	1,700	1,198	1,067	699	216
Cleveland.....	2,123	1,197	959	376	831
Detroit.....	3,538	1,533	453	703	499
Cincinnati.....	511	182	150	200	30
Indianapolis.....	551	316	492	478	655
Richmond.....	1,741	1,903	3,615	1,862	738
Baltimore.....	1,749	2,118	1,812	997	217
Atlanta.....	250	.....	.....	.....	.....
New Orleans.....	811	846	983	921	375
Charleston, S. C.....	778	400	1,009	890	1,174
Chicago.....	19,285	24,030	18,582	13,063	19,198
St. Louis.....	657	568	922	211	156
Minneapolis.....	1,422	1,658	2,462	2,670	2,304
Kansas City, Mo.....	1,079	2,293	350	113	.....
Dallas.....	300	250	1,131	.....	325
San Francisco.....	10,665	7,401	8,393	6,139	8,216
Los Angeles.....	1,703	1,367	1,102	775	771
Portland.....	1,453	1,644	938	704	292
Seattle.....	495	474	351	228	307
All other.....	12,093	9,872	15,440	11,345	8,115
Total.....	250,925	218,180	218,936	185,201	189,381

Class of banks and city.	June 30, 1921.	Dec. 31, 1921.	Mar. 10, 1922.	June 30, 1922.
<i>State bank and trust company members.</i>				
New York.....	121,554	103,398	91,292	92,798
Buffalo.....	919	534	399	303
Boston.....	11,012	9,402	9,313	8,467
Providence.....	754	353	251	153
Philadelphia.....	624	156	204	30
Pittsburgh.....	376	100	200	250
Cleveland.....	9,008	3,649	4,403	3,577
Detroit.....	450	225	.....	.....
Cincinnati.....	.....	3	.....	.....
Memphis.....	280	545	580	180
Richmond.....	.....	.....	3	3
Baltimore.....	100	.....	.....	.....
Atlanta.....	111	337	252	.....
Savannah.....	410	964	764	917
New Orleans.....	4,467	6,714	5,834	1,539
Chicago.....	20,996	16,697	14,034	19,668
St. Louis.....	1,152	793	582	414
Kansas City, Mo.....	1,966	.....	970	319
Dallas.....	.....	125	.....	.....
San Francisco.....	971	1,499	381	713
Los Angeles.....	744	217	72	153
Portland.....	684	569	419	308
Seattle.....	66	.....	.....	.....
All other.....	4,318	2,078	1,592	1,517
Total.....	180,962	148,358	131,554	131,389
<i>All member banks.</i>				
New York.....	264,174	215,122	194,953	190,978
Buffalo.....	1,687	1,046	740	373
Boston.....	44,709	44,734	37,652	41,675
Providence.....	1,158	871	361	460
Philadelphia.....	11,026	10,745	10,350	13,278
Pittsburgh.....	2,076	1,167	899	466
Cleveland.....	11,131	4,608	4,979	4,408
Detroit.....	4,008	678	703	499
Cincinnati.....	511	153	200	30
Memphis.....	280	545	580	180
Indianapolis.....	551	492	478	655
Richmond.....	1,741	3,615	1,865	741
Baltimore.....	1,849	1,812	997	217
Atlanta.....	361	337	252	.....
Savannah.....	410	964	764	917
New Orleans.....	5,378	7,697	6,755	1,914
Charleston, S. C.....	778	1,009	890	1,174
Chicago.....	40,291	35,279	27,097	38,866
St. Louis.....	1,809	1,715	823	570
Minneapolis.....	1,422	2,462	2,670	2,304
Kansas City, Mo.....	3,045	350	1,092	319
Dallas.....	300	1,306	.....	325