The Federation of British Industries have already presented two reports dealing with the question of the payment of the costs of the War by the Enemy Powers.

In the first they pointed out the absolute necessity of securing a substantial payment from enemy countries, and of presenting the total costs in the terms of peace, leaving any diminution of the sum demanded to be a subsequent act of grace on the part of the Allied countries when and if it was definitely proved that the enemy countries could not produce the whole amount.

In the second they reaffirmed the necessity of payment by the enemy countries which had become even more apparent to them upon further investigation and which they consider to be absolutely essential if the economic position of the Allied countries is not to be jeopardised, their industries ruined, and the standard of living of their peoples lowered for generations, and they gave figures and arguments to prove that the enemy countries could pay, if not the whole cost, at least a very substantial proportion.

They also pointed out that areas of enemy states taken over by the victorious allies and also new states created out of the enemy countries must expect to bear their share of the cost of the war.

In this third report they present their final reasons for considering that such a payment is essential and possible, and suggest methods by which an indemnity could actually be raised.

It is needless to labour the reasons for the payment of an indemnity. No country, however rich, can live on capital for four years, expend that capital mostly upon the production of material which is immediately destroyed, at the same time disorganise its whole system of transport and production, lose a large proportion of the pick of its producing population, and then expect without some external assistance to be able to "make a country fit for heroes to live in," or, in cold English, to raise the standard of living of the majority of its population.

It is impossible to shorten hours, raise wages, improve housing, extend education, and do the innumerable other costly things which the phrase implies, and which the whole country demands, and demands rightly, and at the same time to carry on an immense load of taxation devoted to the services of the War Loans, of the Pension Fund and of other non-productive war expenditure.

No production, however organised, can stand both charges and compete with any hope of success in world markets with the production of those Allies, who however valuable their aid, did not bear the burden and heat of the day, and of those neutrals who, however humanitarian their motives, did not see fit to bear any burden at all.

There are only two alternatives—either the Allies must bear the burden alone, seeing the happiness and prosperity of their peoples decline in direct proportion to the sacrifices they have already made in the cause of liberty, or the enemy peoples must bear the principal costs of the horrors they have wantonly inflicted on the world.

It may be that they cannot bear the whole cost but that remains to be proved. Let the whole cost be charged against them and then the Allied nations can subsequently remit such proportion as it is definitely proved that they cannot pay. But the proof must be definite and no calculation made in this present time of financial and industrial chaos can be definite. The only safe, indeed the only sane, course is to demand the whole sum in the terms of peace. This the Federation fully realises may imply a partial military occupation or control of the enemy countries for many years to come, but they desire to point out that such a control cannot be as burdensome as the taxation which must be imposed if such a course is not adopted, will provide the only sure protection against treacherous attack, and, if due precautions against any armament of the
enemy are enforced, need not involve the employment of a larger number of men than would in any case be undergoing training for the defence forces of the respective Allied countries, who may just as well be trained in enemy countries at enemy expense as in Allied countries at Allied expense.

In final support of the two arguments advanced above, viz., that competition with countries undamaged by the War will be impossible unless a substantial indemnity is secured and that the enemy countries are well able to pay such an indemnity, two facts which have been published since the last report of the F. B. L. was issued may be quoted:

During the War the U. S. A. alone has obtained a favourable trade balance of £2,180,000,000, and the Finance Minister of Wurtemberg, speaking after the Armistice, when he was most unlikely to give publicity to a high figure, estimated the pre-war German National Wealth at £20,000,000,000.

The payment of a substantial sum by the enemy countries being essential, it remains to suggest the methods by which this sum can be exacted.

The Federation would suggest that there are five main groups of enemy assets:

1. Enemy investments abroad.
2. Public utilities in areas transferred to Allies.
3. Movable assets (e.g., ships, art treasures, etc.).
4. State and Municipal owned properties and enterprises with all Public Utility Services.
5. Private industrial concerns.

**ASSETS WHICH COULD BE TAKEN OVER AT ONCE.**

Of these they would propose that certain assets should be taken over at once, the enemy Governments being left to compensate the private owners, following to a certain extent the practice laid down by Germany in collecting the Indemnity from France in 1871.

These assets should, of course, be divided proportionately to the war debts incurred by the Allied Countries and used by each country for the extinction of an equivalent amount of War Loan Stock.

These assets would be:

1. Enemy investments abroad ... £1,000,000,000
2. Railways and other public utilities in areas permanently taken over by the Allies ... £60,000,000

These would pass to the annexing or Mandatory State taking over the area, following the precedent set when Alsace-Lorraine was annexed in 1871.

3. Movable assets, e.g., (A) Ships.
   (n) Works of art.
   (c) Gold.

   (A) With regard to ships, the procedure should be as follows:—All ships building or in existence at the signing of peace to be handed over to the Allies.

   These should be treated as an asset for payment of the indemnity, but should be divided according to the Allies' losses in ships. Thus, if out of the total sinkings 80 per cent, were British, we receive 80 per cent. of the German and Austro-Hungarian etc. ships.

   These ships can be sold on the open market to existing or new lines, in either case the money obtained to be immediately devoted to the paying off of the equivalent amount of War Loan Stock.

   As by latest computation the German ships are now worth £120,000,000, and say our share is £96,000,000, that amount of script must at once be redeemed, resulting in a reduction of annual taxation of £4,800,000.
The advantages of this beyond the obvious one are:

(a) It will find re-employment for a large number of men who have been trained in the last four years in the auxiliary naval services:

(b) Restore our mercantile marine supremacy:

(c) Give the Allies an almost complete control of all imports of raw materials into Germany and of her manufactured exports:

(d) Replace deadweight taxes by an earning and producing asset.

(B) Works of Art: It would be wise not to under-estimate the value of works of art in Germany. In their second memorandum, the Federation of British Industries drew attention to the principles which should govern the taking of works of art from Germany beyond those which have been carried off from the invaded territories of the Allies. They wish now to draw attention to the fact that many Germans foreseeing the fall of the mark on the signing of an armistice invested considerable sums in works of art generally, which has resulted in these appreciating to the extent of 400 per cent. They also invested in carpets, at first cornering, so far as possible, Persian and Turkish carpets, and when the supply of these became exhausted turned their attention to the other kinds.

At a very moderate estimate objects of art to the value of £60,000,000 should be obtainable from Germany. It would obviously be necessary to spread the disposal of such objects of art over a number of years so as not to flood the market.

(C) — Gold: Before the War there was some £180,000,000 worth of gold in circulation. It would probably not be wise to take all of this, as the effect on the German paper currency would be disastrous. In addition, a proportion of the gold in circulation in Austria-Hungary might also be included; but the total safely obtainable from both sources would probably not exceed £100,000,000.

All the assets considered so far are ones which could be transferred practically in toto at the earliest opportunity and used for the immediate extinction of a portion of the War Loan Stock issued by the various Allies and total up as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enemy Investments Abroad</td>
<td>£1,000,000,000</td>
</tr>
<tr>
<td>Value of Public Utilities in Annexed Areas</td>
<td>at least 90,000,000</td>
</tr>
<tr>
<td>Ships</td>
<td>at least 120,000,000</td>
</tr>
<tr>
<td>Works of Art</td>
<td>at least 80,000,000</td>
</tr>
<tr>
<td>Gold</td>
<td>100,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>£1,340,000,000</td>
</tr>
<tr>
<td>Minimum Total Allied War Costs</td>
<td>£25,000,000,000</td>
</tr>
<tr>
<td></td>
<td>1,340,000,000</td>
</tr>
<tr>
<td></td>
<td>£23,660,000,000</td>
</tr>
</tbody>
</table>

DEBENTURES ON STATE AND MUNICIPAL ENTERPRISES AND ALL OTHER PUBLIC UTILITY SERVICES.

The next step should be as follows:

(4) State and Municipal Enterprises: All these should be capitalized and a mortgage placed on them in the form of 6 per cent Debentures. These to be guaranteed

(a) By the German Government:

(b) By the Associated and Allied Governments jointly:

(c) By each individual Government to its own Bond holders.

* The German Colonies value, if any, not ascertained.
At a rough but low estimate the German and Austro-Hungarian Municipal and State-owned enterprises should be able to carry debentures worth at least £6,000,000,000. Some of the chief items are as follows:

(a) **German Railways:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total mileage</td>
<td>£550,000,000</td>
</tr>
<tr>
<td>Before the War the total value of the Prussian-Hessian Railways was assessed at</td>
<td>£950,000,000</td>
</tr>
<tr>
<td>And their mileage was</td>
<td>£24,998</td>
</tr>
</tbody>
</table>

If this figure were correct and there is no reason to suppose otherwise, the total of the other systems, excluding the Alsace-Lorraine lines can be considered as two-fifths of the above. Therefore:

- Prussian-Hessian: £950,000,000
- Others, excluding Alsace-Lorraine: £380,000,000

Total: £1,330,000,000

It should be noted that Helfferich recently estimated the value of the German Railways at £1,250,000,000, sterling and his estimates may generally be regarded as under rather than over the mark. There were, in addition, 2,926 miles of railways in private hands which could also be reckoned in to strengthen the security and justify the issue of debentures to a total of at least £1,000,000,000.

(b) **Austro-Hungarian Railways:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total mileage</td>
<td>£28,418</td>
</tr>
<tr>
<td>Valued at three-quarters of the German lines, a gross value of £975,000,000 is obtained and against this could be issued debentures for £750,000,000, especially if the Bulgarian railways were included. Therefore, on railways alone debentures equaling £1,750,000,000 could be issued.</td>
<td></td>
</tr>
</tbody>
</table>

(c) **Canal and River Transport:**

Germany alone has twice as many miles of waterway as France, and for Germany and Austro-Hungary at a low estimate debentures worth £750,000,000 would be borne. This figure is based on the traffic values and tonnage mentioned in the appendix to the second report.

(d) **Other State-owned properties:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal domains had a net profit in 1910</td>
<td>32,500,000 Marks</td>
</tr>
<tr>
<td>The Federal-owned forests had a net profit in 1910 of</td>
<td>136,000,000</td>
</tr>
<tr>
<td>The Federal-owned mines had a net profit in 1910 of</td>
<td>25,000,000</td>
</tr>
<tr>
<td>Other State-owned undertakings</td>
<td>80,000,000</td>
</tr>
</tbody>
</table>

On the average these properties would appear to have made a minimum profit of 5 per cent, on the capital invested and therefore if we multiply these profits by 20 to get the actual value of the property we should be well within the mark. But it must be pointed out that all these figures are for 1910 and it is known that between that date and 1914 a considerable increase took place in the amount of State enterprises.

Even on the 1910 figures, however, we can assess these properties as follows:

- Federal Estates (770,000 hectares) capital value at least £632,500,000
- Federal Forests (3,066,000 hectares) capital value at least £1,368,000,000
- Federal Mines: £25,000,000
- Other State enterprises: £80,000,000

Total: £2,573,000,000

*It should be noted that this does not include communal forests which alone equalled 5,577,470 acres.
Then there is the Reichsbank whose gross profits in 1917 were $364,000,000 marks, and the net profits $97,000,000. Of which the Government received $76,000,000.

It is obvious, however, that this institution is not likely to make the same profits after the War that it did in 1917, and if we take its capital value at one-third of twenty times its profits in 1917 we shall be on safer ground.

Therefore its capital value should be £32,000,000.

The mint made a profit of $18,000,000 marks. Its value therefore should be about £18,000,000.

The Printing Works made a profit of $4,500,000 marks. Its capital value should therefore be £4,500,000.

Reichsbank, Mint and Printing Works, Total value £54,500,000.

Turning next to Municipal property we find that the assets of Berlin were in 1916 $1,037,000,000 marks, or £51,850,000. While its total debt in the same year was $604,000,000 marks, or less than two-thirds of its assets.

The total loans issued by various Municipalities up to 1912 amounted to $4,588,000,000 marks, or £229,400,000, practically all invested in producing enterprises.

If, basing our calculations on Berlin, we consider that their assets were not less than one-third more than their debt, we find that these would be worth at least £309,000,000.

Thus, by Federal Estates we have £273,500,000.

By Reichsbank, Mint and Printing Works £54,500,000.

By Municipal Assets £309,000,000.

O r Total £537,000,000.

But we have not yet considered all those public utilities which are nominally in private hands. There are gas works, water works, trams (there are 10,000 miles of tram lines alone in Germany), water power, electric light installations, etc., nor have we ascertained the exact value of such works as the Kiel Canal. In addition there are munition works like Krupps and the Electric Companies like the A.E.G. In the case of the A.E.G. there is a strong movement in Germany at the present time to nationalise this huge concern and a firm control over Krupps is also highly probable.

Up to this point figures have been produced to justify the issue of Debentures of at least £3,000,000,000. In addition all the public utility enterprises in Austria-Hungary must be added in whether municipal-owned or not, and all the property of the former Emperor of Austro-Hungary which has now become national property. If these therefore are added to the unascertained value of non-municipal-owned public utilities in Germany, it seems most unlikely that total debenturable assets to the extent of another £3,000,000,000 would not be obtainable. It is moreover believed that owing to the rapid development and extension of these public utilities during the years subsequent to 1910 (the date of most of these figures) an ample margin remains to cover this estimate.

Therefore it would appear that at least £6,000,000,000 worth of Debentures could be issued by all these public undertakings. It is not claimed that these figures are anything more than approximate, although if anything too low, but the point emphasised is that so far as possible Debentures against these utilities should be issued after a careful actuarial investigation by Allied experts.
It is probable that Debentures of this character with a triple security of the German Government, the Associated and Allied Governments jointly and each Allied Government respectively would readily be taken up in exchange for the War Bonds or War Loan Stock of the Allies which would then be extinguished and so automatically reduce the amount of taxation necessary to pay their interest and sinking fund. If, however, any War Bond holders, etc., declined to do so, the Government could themselves hold the Debentures and gain the additional 1 per cent. with the same reduction of taxation.

The Debenture holders should have the following rights among others:

(a) To appoint through the Associated and Allied Governments suitable representatives to act as Trustees and to watch over their interests in the undertakings concerned, thus instituting incidentally a valuable intelligence service in the enemy countries which would give ample warning of any hostile preparations, whether military or commercial.

(b) To enter into possession in the event of a failure to pay the whole interest, to the extent of Debentures unpaid, e.g., if the interest paid in any year was only sufficient to meet the claims of 5/6ths of the Debentures, the Trustees should have power to enter into possession in whatever municipal, etc., undertaking they thought would pay them best to the extent unpaid.

In the event of the Debenture holders in any year not receiving their 6 per cent., the first step would be a call on the Enemy Government concerned to make up the difference. If this failed, it would be the duty of the League of Nations to force the Government in default to act and to support the Trustees entering into possession. Meanwhile the Home Government, in our case the British Government, would pay those Debenture holders who had not received their interest up to the 3 per cent. they could have received had they retained their bonds. This without prejudice to recovery of the whole amount of interest due from the defaulter, in which case the British Government would take all except the 1 per cent. which would pass to the Debenture holders.

It is assumed, of course, that the League of Nations would be prepared to take cognizance of this Agreement and to enforce its provisions as a valid International Agreement.

One immediate and obvious advantage would thus be to strengthen the League of Nations by providing an obvious motive for joint action based upon joint material interests.

If it became necessary to Foreclose.

The advantage of this scheme is that, so far as it goes, it provides tangible assets which can be seized in the event of the full interest due on the Debentures not being paid.

The assets chosen are such as cannot be moved elsewhere as could a factory, and must be maintained in running condition by the Enemy Government, since they are all services indispensable to their own people. A great city like Berlin cannot permanently be deprived of railway services, of light or of water. Therefore, the Government must raise fares or cut down expenses to pay the Debentures and keep the concern running.

The Debenture holders if they foreclosed would, of course, be able to take similar measures. The defaulting Governments, in their own interests, could not permanently reduce these systems to chaos.

In practice, the defaulting Governments would never compel the Debenture holders to foreclose since in the long run they would gain no advantage thereby, but on the contrary, would lose any profit over and above the interest due on the Debentures.

They might once try the experiment as a piece of "bluff," but if the League of Nations, or even the present Allies, stood firm and supported the Debenture holders, the experiment would not be repeated. On the contrary, it would be obviously to the interest of the Enemy Governments to strain every nerve to buy out the Debenture holders at the earliest possible date. When the Enemy Governments wished to buy out any quantity of Debentures they should of course be allowed to do so and these Debentures should be drawn pro rata among the Allied countries.

An essential would be that all Debentures, if fixed for convenience on individual assets, should be distributed pro rata among the various Allied countries so that no one country held all the bonds on any particular asset. This would mean that it would always be to the interest of all the Allies to enforce payment.
The Debentures should be on all present and future undertakings of a similar nature, not for the purpose of increasing the number of Debentures but merely to preserve the power of the Trustees to enter into possession of the most profitable enterprise in the event of foreclosure and to provide a check on any attempt at intentional depreciation of any particular asset.

A point to which special attention is directed is that this system would make it to the interest of the Enemy countries to redeem these Debentures as soon as they could.

**Total Assets towards this Debt.**

Thus it has now been shown that £7,340,000,000 can be obtained for the immediate extinction of that amount of War Loan Stock, namely:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Transferable Assets</td>
<td>£1,340,000,000</td>
</tr>
<tr>
<td>By Debentures</td>
<td>£6,000,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£7,340,000,000</strong></td>
</tr>
</tbody>
</table>

If we deduct £25,000,000,000 we have £17,660,000,000 still to be paid off and the interest carried.

This would have to be met as far as possible by the third step, viz.,

**TAXATION ON REMAINING ASSETS.**

It has been shown by the previous memorandum that an additional revenue of £840,000,000 can probably be derived by taxation and other methods from the four Enemy countries.

At 5 per cent, £883,000,000 will be required to pay the interest due without providing any sinking fund.

In the last memorandum issued by the Federation it was recognised that for a time the Allies would themselves have to pay part at least of the interest and compel the Enemy to pay off by degrees the whole principal. This policy seems desirable, but a larger portion of the interest might well be charged to Enemy countries under this scheme and a smaller amount, say £400,000,000 annually devoted to extinguishing the original debt, since the steps already suggested would have materially reduced the total sum to be paid off.

The redemption of the Debentures would be in addition to the fixed payment and at the discretion of course of the Enemy. But the right to enter into possession of any part of the State or municipal undertakings should remain unimpaired until all unsecured debts and all Debentures had been extinguished.

**THE QUESTION OF THE EXCHANGE.**

Finally comes the question of the transmission of the sums obtained by the methods described above from the Enemy countries to the Allied countries.

A frequent answer to any claim for repayment of the cost of the War is that it would be impossible to transmit so large an annual payment. In short, that it would completely upset the international exchange.

It appears possible that too much stress is laid upon this by theorists. It is the considered opinion of the Federation of British Industries that a far larger sum can actually be transferred than is usually assumed without detrimentally affecting the exchanges.

This will be:

1. By the export of certain raw materials direct to the Allies.
2. By the normal export trade of Germany to foreign countries and credits created thereby.
3. By the export of certain manufactured goods direct to the Allies under certain safeguards for the protection of Allied Industry.

But when all these methods have been exhausted it is recognised that for some time at least it may be impracticable to transfer the whole annual payments from the Central Powers. At the same time, it should be pointed out that this difficulty will decrease as years go on, since with an expanding market the demand for manufactured goods is bound to increase.
What will possibly happen at first is that each year some of the indemnity will remain in Germany. Therefore the Debenture holders and possibly the Allied Governments themselves will find they have a considerable credit standing to their accounts. In short, the German savings, instead of belonging to them, will belong to us, and instead of being invested by them in enterprises competing with us can be invested by us in enterprises under our control. Thus the Allies would reverse the policy formerly followed by Germany and gradually penetrate and control Central European enterprise and industry and particularly undeveloped sources of raw materials.

If each year there was a surplus credit which had to be employed in Germany, the result would also be that money in Germany would be cheaper than in countries outside. But as this "money" would be under Allied control no harm would be done, since it would mean that the real savings of the various nations would be kept for the development of the rest of the world, and Germany would less and less be able to prepare the war of revenge which she obviously contemplates at the present moment.

Further, in controlling her industries we should largely oblige her to take what she had to import for these industries from the Allies instead of from neutrals.

Further points in support of these proposals are that it seems probable that though German exchange may be bad, it will be better than that of Russia for some time. Therefore as Russia becomes stable, there will be valuable openings for new industrial enterprises for the financing of which these Allied credits in Germany can be utilised and the interest paid by means of the export of raw materials, corn, etc., from Russia.

Nor must the fact be ignored that if these German savings do not pass into Allied hands in payment of the German debt, they will certainly be utilised by Germany for the establishment of similar undertakings in Russia and Poland.