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## Secretary Knox Harnesses Wall Street to Serve American Diplomacy, 1911

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SECRETARY KNOX HARNESSSES WALL STREET TO SERVE  
AMERICAN DIPLOMACY.

"Dinna marry for money, but go where money is". This canny Scotch saying should serve to make obvious even to the willfully blind the reason why certain recent political-commercial moves in the world diplomacy of the United States have brought the Department of State at times into contact with some of the great banking houses of the country instead of informing us of frequent and earnest conferences between officials of the State Department and the overseers of the leading poor houses of the country.

A Far Eastern newspaper recently made the remark sinister to China that it was felt by Japan and by Russia in Manchuria that the path of empire lay along the railroad. Americans know this well enough, and they also know what interests them much more in this case that commerce goes with railroads.

By our treaty of 1904 with China, China pledged herself to us, as she did also by temporary treaties with Great Britain and Japan, to abolish likin making compensatory increase in her customs tariff and to reform her currency. Likin is a most vexatious form of  
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internal taxation and a great detriment to trade, just as is the present chaotic condition of the Chinese currency. The United States has from the first taken the lead in endeavoring to facilitate China's efforts to carry out these reforms. More than a year ago it transpired that Great Britain, France and Germany had made with China a preliminary agreement (the Hukuang loan) for the financing and construction of the Hankow-Canton Railway and a railway west from Hankow towards the Province of Szechuen. It was at once noticed that this agreement contained two provisions of real interest to America. First, the internal revenues (likin) were to be hypothecated to the lenders, and, second, all railway materials purchased abroad were to be bought in the countries whose nationals supplied the loan. The governments of those nationals to whom the likin was hypothecated would obviously be in position to plead special interests, if the United States with only its general commercial interests indirectly affected and with no direct interest in the provincial revenues should raise the question of pressing for the reforms, which



all our merchants agree are essential to the development of a flourishing trade with the Empire across the Pacific. The failure of Americans to participate in the Hukuang loan would likewise have excluded American manufacturers from opportunity to sell railway materials for this important system and its branches in the heart of China tapping the great Yangtze Valley. Financial combinations of the first magnitude energetically supported by their governments had brought this loan to the brink of final contract. For Germany there was the Deutsche-Asiatische Bank, for France the Banque de l'Indo-Chine with its ramifications, and for Great Britain the ancient and powerful Hongkong and Shanghai Bank. It was planned that those responsible for American commercial interests and prestige in China must see that Americans ought to participate in the Hukuang loan on account of the broad national benefits it entailed. Confronted with these powerful groups even to have the hope of success there must be found an instrumentality of the great strength. At the psychological moment there appeared upon the scene a group composed of J. P. Morgan and Company, Kuhn, Loeb and Company, The National City Bank and the First National

National Bank of New York ready to do the bidding of the Department of State.

After nearly a year of diplomatic negotiation and of simultaneous negotiation between the French, German, British, and American groups, American participation has been successfully assured to the satisfaction of all concerned and to the especial gratification of the Chinese Government and of American interests in China.

Last year Mr. Straight, who represents the American group of bankers in China and who represented for this purpose also the British firm of Paulings, signed, with the Manchurian Viceroy, a preliminary contract for the construction of a railroad from Chinchou north to Tsitkhar to Aigun on the Amur River. The undertaking was to be financed by American capitalists with the inclusion, to a certain extent, of other capital subject to the approval of the Chinese Government; and the construction was to be carried out by the British company. It was thus an Anglo-American Railway enterprise in Manchuria which would open up to trade a large new region. The American Government expressed a disposition to support the project provided the

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the British Government would do the same. This enterprise, which has received the highest sanction of the Chinese Government by an Imperial Edict, is still actively under discussion. It was in the broaching of this project that Secretary-laid<sup>Knox</sup> before the Governments of Russia, Japan, Germany, France and Great Britain, the famous "neutralization" plan,- so called. This was the simple and great idea of taking the Manchurian railways out of politics, terminating in advance the temporary tenure of Russia and Japan by a loan to China, in which all the interested powers and especially Russia and Japan should participate. The rejection of the broader scheme by Russia and Japan was no more mysterious than a man's refusal to sell his horse. Since the subsidence of silly talk recent writings on the subject clearly show that the soberest and best judgment of all concerned is that the policy proposed was a benevolent and wise one, which would have afforded a panacea for the threatened absorption of Manchuria by Russia and Japan for suspicion against those powers and for apprehension of another clash between them in the future. It is also conceded that the carrying out of the plan would have formed a fine reduction to fact of

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the open door policy of which so much has been talked and written. The proposal has blown away the fog and shown the world the true policy of the powers in Manchuria. If it had served no other purpose it would have been well worth while.

The Government of Honduras some months ago sent agents to New York to negotiate with American bankers for the refunding of the debt of Honduras, the reorganization of its finances on a sound basis and a sufficient loan, in addition, to make possible the completion of a railway line, together with some other useful improvements. These negotiations which have had the support of the Department of State are in a fair way towards success. The neutrality of Honduras was recognized by all Central America, as well as by Mexico and the United States in the Washington Conventions, as being the greatest guarantee to peaceful progress in those naturally rich republics; and it has long been felt that a strong Honduras, financially stated, would be the greatest practical contribution to peaceful conditions which no number of courts of arbitration or expressions of lofty sentiment can realize.

One of the recommendations of the Commission which

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was sent to Liberia under an Act of Congress and a recommendation the Administration is understood to approve in principle is a loan of less than \$2,000,000.00 to the Liberian Government to enable it to convert its debts and rehabilitate its finances. Any foreign banker would wish the administration of the customs, which would be security for the debt, to be in the hands of one of his countrymen, selected by his own Government, in order to secure skillful and scrupulous administration.

In each of the foregoing examples of how Secretary Know has been using Wall Street it will be obvious that the enterprise could not succeed without the support of the Department of States, from which it follows, as a matter of course, that the Department of State is able to dictate to the bankers what must be the terms of any arrangement which can be diplomatically supported. In these circumstances, since the interest of this Government can only be the extension of American commerce, directly or indirectly, the amelioration of political conditions upon which commerce, progress, and civilization depend, and the furtherance of American prestige, the advantage of which is commercial as well as moral, it is, of course, impossible that the

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Department of State would support bankers' enterprises, which, to be particularly profitable, must be particularly onerous. Indeed, the wonder is that our bankers are willing to go so far afield and undertake such difficult negotiations for ordinary profits when their own country affords so much easier business. Doubtless, this new tendency to foreign investment is due, in part, to the natural overflow of accumulated capital, but it seems also due to a new interest in an appreciation of international transactions by no means unalloyed with patriotic sentiment and inspired also, no doubt, by a prestige of acting as an instrumentality in undertakings in which the Government is interested.

Those of our worthy publicists to whom Wall Street is anathema have, in the debauchery of their muck raking, been silly enough to insinuate that the Department of State was run by Wall Street. Any student of modern diplomacy knows that, in these days of competition, capital, trade, agriculture, labor and state craft all go hand in hand if a country is to profit through

an onlightened diplomacy by its membership in the family of nations. Anyone who will study the recent relations of the Department of State to the enterprise of capital in foreign countries will not have to ask to whom, if to anyone, a gold brick is being

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sold. Yet one of the difficulties which confront the Department of State is the fact that in some cases our bankers and business men have sharply competed for the prestige of being the honored recipient, gold brick or not, of one of the opportunities to be the Government's instrumentality. To measure the claims of different American interests is not a function which should burden the Department charged with the conduct of our foreign relations, and it is to be hoped that some means may be found to provide against this difficulty and so put an end to disappointments, which have too frequently been translated into injurious attack upon the Department of State. In other countries the instrumentalities of financial diplomacy are generally powerful wedges, presenting a united front in the foreign field and wide open at home. It is known to be the wish of Secretary Knox whatever such opportunities there are may be participated in as broadly and impartially as possible by all interested reputable and suitable American agencies.