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THE STRESS OF WAR FINANCE.

Some European economic authorities have already put forward the suggestion of the possibility that before or after the war ends one or other of the belligerent states will be forced into national bankruptcy. Whether or not this is a true reading of the tendencies induced by present events, it is certain that the financial strain upon some of the States now involved is of so acute a character that its effects will be felt for generations. In this respect the aid of Great Britain is of immeasurable advantage to the Allies. Not only is the immense accumulated wealth of Great Britain available in the common service of saving civilisation, but thanks to the sure shield of the Navy, so far none of that wealth has been wasted in the devastation of war. In this respect the British position differs widely from that of other members of the Grand Alliance. Belgium's industries have been wiped out; a large portion of the industrial districts of France have been or are still in the hands of the enemy; Serbia is on its beam-ends; for months during the winter Russia's trade has been stopped by impossibility of access.

But if Great Britain is best equipped to stand the financial strain of the war, so is the load upon her the heaviest. Her fleet is in force in the Mediterranean as in the North Sea and policing the seven seas as well; she is conducting five great land campaigns in Europe, Asia and Africa—three at least of major importance. The latest estimate is that expenses in this connection are at least \$12,000,000 a day. Apart from that, she is supporting financially the weaker members of the Alliance as well as the Dominions and is obliged to finance by far the major portion of the purchases of the Allies.

The task is certainly a formidable one. That its difficulties will not prove insurmountable, however, it may be still well believed. The matter is of enormous importance to the United States, whose favourable trade balance as a result of the war has been piled up to the unprecedented total of a billion dollars. The alternatives that may be adopted in order to cope with the situation arising from the present condition of affairs are thus summarised by Messrs. Spencer Trask & Co., New York bankers:—

"Great Britain can settle in part through shipments of gold, even though we are not in need of the metal on account of our already vast stores; her people can increase their investments in government bonds by decreasing their own expenditures; the moment that the military situation permits she can withdraw from her armies in the field a

sufficient number of skilled workmen to increase the output of her own factories; she can arrange through her joint stock banks or bankers for loans here on open account or against the deposit in London of American securities, and if all this should prove insufficient or impractical she can float a loan in these markets. For her to successfully do the latter, it would be necessary to offer a higher rate of interest than she has heretofore paid. That would naturally react on the loans she already has outstanding, and the higher the yield offered was, the greater would be the temptation to return to us American securities still held by British investors."

The authorities quoted go on to express the opinion that the fact that sterling exchange is below normal does not reflect a real depreciation in Great Britain's currency, because a good part of the difference between present quotations and the point at which gold is usually imported may be explained by the increased costs of shipment and insurance and also because of the heavy amount of exchange that is being pressed for sale. English opinion on borrowing in the New York market is apparently expressed in an attitude of doubt as to whether the New York market would be prepared to absorb say one hundred millions sterling in one, two and three year bonds.

But if the British financial position as a whole, need give no cause for anxiety the same cannot be said of the position as it affects the individual taxpayer. In a recent House of Commons discussion, it was stated that if the war lasts till April, 1916, the British National Debt will be raised to ten thousand million dollars, causing an annual charge of about five hundred millions. This means roughly an increase in a peace budget of about 50 per cent., from one thousand millions to fifteen hundred millions. Mr. Snowden, an influential Socialist member, argued that the working classes were already being taxed sufficiently through the rise in the cost of living, which he estimated at from 10 or 15 per cent., and boldly advocated that in the case of large incomes, the Chancellor of the Exchequer should re-graduate the income tax up to 75 per cent., and say "No man shall be left with more than a certain amount; we are going to take all the rest." This doctrine sounds strange in Canadian ears. But at present wealthy men in England are paying up to 25 per cent. of their incomes in income tax. And the proportion will almost certainly not stop at that if the financial strain of the war is long continued