

The Flow of Capital after the War

By Prof. W. W. SWANSON.

The financial press of the neutral nations, and especially of the United States, has commented of late in a somewhat pessimistic vein on the financial outcome of the war, and especially upon Britain's future leadership in the world of finance. It is boldly stated, indeed, that Great Britain will be relegated to the place of a second-class financial power, and that New York will displace London as the world's financial centre. This outcome is on the whole welcomed, apparently, by American publicists and financiers. Very little consideration is given to the fact that, in case of Britain's financial decline or downfall, the United States will make only a relative, and not an actual, gain. Before, however, an attempt is made to estimate future financial conditions, as far as Britain is concerned, it may be well to survey rapidly what the United Kingdom has accomplished in the past hundred years in the realm of finance.

The Supremacy of One Hundred Years.

During that period Britain's financial leadership has been supreme and unchallenged. In every quarter of the world she placed her capital—in Canada, Mexico and the United States; in every republic of Central and South America; in the Near and Far East; in Australia, Africa and even in Europe. And most fortunately for British capitalists, their investments have been placed almost entirely outside of the immediate zone of war. Britain has lent comparatively little to the belligerent continental Powers, and is therefore in a wonderfully strong position as compared with, for example, Germany, which has invested huge sums in Russia, in the Balkans and latterly in Asia Minor. While Germany can, for the present, obtain little or nothing on these loans the United Kingdom finds its earnings power on foreign investments almost unimpaired.

So wonderfully well, and so smoothly, has the British financial system functioned that very few have paused in the past to consider what it all implied. From almost every civilized and semi-civilized country in the world promoters and business men have journeyed to London to place their projects before British investors. And because her capitalists controlled the situation Britain was able to pick and choose, to select and reject, from the multitudinous proposals that were put before them. It is quite true that a considerable sum of English capital has been lost in unprofitable ventures; but by far the greater part has been placed in solid undertakings that have yielded rich returns. After the first feverish rush to the mining camps subsided, it has been English capital that has intervened to place the business on the bed-rock of efficient organization and development. In a word, British investors could furnish the huge sum necessary for equipment and exploitation, and then wait calmly for returns.

Cause of Britain's Financial Power.

In point of view of actual wealth the United States is richer than England. Bearing in mind that no careful and scientific computation has been made as yet—not even in the United States Census—of the actual and relative wealth of the Republic, we may assume that 150 billions of dollars for that country as compared with 90 billions for the United Kingdom are reasonably accurate calculations. These figures, however, take into consideration only the wealth of England, and not of the British Empire. Beyond doubt the Empire as such is the wealthiest political aggregation that the world has ever known.

Although the United States is enormously wealthy, however, the greater part of her capital is not in a bankable, liquid form. It consists of fixed forms of wealth—lands, mines, timber limits, railroads and so forth. It is quite the contrary in the United Kingdom. While that nation has a huge capital equipment it has also immense sums available—estimated at two billion dollars before the war, by Sir George Paish—for annual investment abroad. England, indeed, has many natural advantages over her chief industrial and commercial competitors, not the least of which is found in the fact that her population is located within a relatively circumscribed area, and that she has ready access to the chief markets of the world by way of the sea. The

former fact means that a relatively small railway equipment will serve to efficiently meet her inland transportation requirements, while the latter gives her the cheapest carriage rates for her export trade of any nation in the world. Add to this her early start in modern capitalistic industry and it at once will become evident how, while setting aside sufficient capital for her own requirements, England is able at the same time to play the leading role in developing Canada, the United States, Mexico and, indeed, almost every other country in the world.

It cannot be too greatly emphasized, therefore, that what counts is the field of international finance is not wealth, merely, no matter how great that may be, but wealth as a surplus fund and in a liquid form. A few years ago the United States floated its great Steel Corporation, capitalized at somewhat more than one billion dollars. This was looked upon as a remarkable feat, and justly so. But half of the capital of the United States Steel Corporation was water; and the real capital sum invested did not exceed five hundred million dollars. In the same year England saved and invested abroad a sum sufficient to establish four such corporations. In fact, the truly phenomenal financial strength of the United Kingdom has never been properly gauged or appreciated; due, no doubt, in part at least, to the reason that such staggering investments baffle the imagination and are beyond the grasp of the "man in the street." Besides, even prominent business men and financiers looked upon the annual flow of capital from England as a natural and long-established phenomenon in the modern industrial world.

Building British Business.

It was only natural that English industry profited by England's foreign investments. Foreign and colonial promoters of mines, railroads, power plants and so forth, discovered that powerful industrial interests combined to create a market for bonds and stocks, and so to raise the necessary capital, so long as equipment were purchased in Britain. In recent years the great joint-stock banks have supported this policy; and it has been publicly stated that England's banking power will be ranged behind the industries of the nation, after the war, to a much greater extent than in the past. Moreover, the acquisitive or saving instinct, owing to the exceptional opportunities presented for acquiring a fortune, has been strengthened in Britain during the past generation; and the powerful stimulus of social ambition has led to the piling up of a huge reservoir of investment capital. Thus it has come about that social, financial and industrial forces have co-operated in furthering the international power of British gold.

Wages and War Taxes.

It has been argued by American economists especially that the war will put an end to the annual accumulation of supplies of investment funds—at least to anything like the extent to which they were built up in the past. It is pointed out that one-half of Britain's private income of \$12,000,000,000 flows into the pockets of the well-to-do and the rich, and that the wage-workers are demanding, and receiving, a larger share of that income. At the same time taxes are increasing, and the cost of production is thus being raised from two directions. The inevitable result will be a diminished loan fund after the war.

It cannot be gainsaid that wages have risen to keep pace with the increased cost of living, and that taxes have been greatly increased also. But neither of these factors need inevitably increase the cost of production. Higher wages may mean more efficient work, and thus have a directly opposite effect to the one supposed. And higher taxes may be offset by a higher total income. That, according to Sir George Paish—if we may quote him again—is precisely what has occurred in the United Kingdom. The national income has been increased by \$3,000,000,000 per annum since the outbreak of war; and thus the war has been largely paid for, up to the present, by increased national savings. That in itself is a wonderful achievement, never equalled in any country, at any time, in the world's history. But a further, remarkable fact should be noted. Great Britain's foreign investments, before the war, stood at \$20,000,000,000.

These have been reduced by about \$2,500,000,000; but a like sum has been advanced to the Colonies and Allies by the Imperial Government, so that, as a matter of fact, the foreign investments of the United Kingdom have not been impaired. The burden of taxation, therefore, is not now, and will not be in the future, a crushing one. The earning power of the nation has not been maintained merely, but actually increased. Mr. Lloyd-George has drawn attention, also, to two other notable facts; first, that England has installed a vast number of automatic machines for turning out war materials, which will be available when peace is declared for work on the ordinary products of industry; and second, that a great new army of men and women is being trained on machine operations. Britain, therefore, will be in a position to make a bid for a share of the world's trade on a scale never equalled before in her history. And since taxes, ultimately, are paid out of the products of industry they may be relatively light if spread over a greater output. In that event, the cost of production will not be raised and Britain will be able to compete on equal terms with her most formidable rival, the United States.

The Future Trade of the United Kingdom.

Relatively to her financial strength the present struggle is, for England, less exhausting than the Napoleonic wars. At the end of 1815 Britain had a national debt of \$4,200,000,000; and during the latter years of the war one-third of her entire income was required to meet current demands. The population of England and Wales combined, moreover, was only eight millions. And yet with boldness and determination the English people faced what must have seemed an overwhelming situation and solved every problem. To-day the population of the United Kingdom is 46,000,000; and, what is even more important, that population is educated and trained to a degree of industrial efficiency never equalled in the past. The national wealth has also increased greatly; and, as pointed out, has actually grown during this exhausting war. It is true that England was industrially supreme in 1815; and that since that time other great nations have challenged her commercial supremacy. But the markets of the world have expanded with the industrial growth of the nations; and Britain's trade has increased absolutely, if not relatively to that of her competitors, from year to year.

It should be said, in conclusion, that England's opportunities for trade expansion will be increased, rather than diminished, after the war. Russia will, with its 170,000,000 people, prove a rich market, and one that will grow more valuable as the years pass by. The resources of that country have, as yet, scarcely been touched; and English capital and goods are bound to displace Germany's there. England, also, will have the most important role in the economic exploitation of the rich provinces of Asia Minor. In Africa, in the Far East, in South America and in the great self-governing Colonies Britain's opportunities will be larger than ever. The whole world will still look to London for capital, whose only serious competition will be New York. The latter money market, however, for years to come will be absorbed in meeting the constantly expanding demands of the United States for development capital. Only on the assumption that the European war is to continue for several years to come will Britain's financial and commercial power be seriously and irretrievably impaired.

GLUTTON FOR PUNISHMENT.

William Gow, says the New York American, will go down to posterity as a record-breaking war victim. This is what has happened to him thus far:

October, 1914, chief engineer of the Ropner freighter Colby, of Hartlepool; sunk by the German cruiser Kronprinz Wilhelm; taken as a prisoner of war to Newport News; released.

December, 1914, in his home in Hartlepool; his home destroyed by shellfire from the German cruisers during raid.

June, 1915, chief engineer of the Ropner freighter Gadsby, of Hartlepool; sunk by German submarine U-39 in the week in which twenty-nine other freighters were torpedoed in the North Sea; picked up by a trawler after being in the water six hours.

January, 1916, chief engineer of the Ropner freighter Dromonby, of Hartlepool; sunk by a German raider in the Bay of Biscay; brought in the prize-ship Appam to Newport News.

And now Mr. Gow is returning to Hartlepool to get a berth on some Ropner freighter still afloat.