

New York's Financial Future

New York Bankers Have Simply Acted as Intermediaries Between Themselves and the Purchasers of War Supplies, Playing No Dominant Role in the World of Finance.

By W. W. SWANSON.

American publicists and journalists are loudly proclaiming that New York has seized the financial supremacy of the world, and that it will be impossible at the close of hostilities for London ever to regain its old position as the world's banking centre. Fortunately, however, from the British point of view at least, it is considered by the foremost economists of England and France that London's financial strength will remain unshaken by this war, and that the financial interests of that great money centre will be able to more than hold their own in the competitive struggle for economic supremacy at the close of the war.

It may be recalled in this connection, also, that it was these same American publicists and journalists who predicted dismal times in the Republic at the outbreak of war; and who advised manufacturers, wholesalers and traders to curtail credit and production, and prepare for an inevitable economic and financial collapse. Their prophecies, as we now all know, proved to be vain; and the American people entered upon an era of prosperity such as they had never before experienced in the course of their history as a manufacturing and trading nation. To get at the true state of affairs now and for the future it will be well to review briefly what has happened in the United States, from the financial and economic point of view, since the outbreak of war. This is doubly important for Canadians at the present juncture; since for some time to come we shall have to place reliance upon the New York money market, in large measure, to finance our governmental, municipal, and industrial interests.

The Outbreak of Hostilities.

At the outbreak of hostilities in August, 1914, the United States displayed a condition of funk which quite surpassed the disorder and disarray manifest in finance and industry in the United Kingdom. It was predicted that the Republic would be forced to cut off trade relations with Europe in general, and the United Kingdom in particular; that Europe would not be able, because of domestic war expenditures, to buy the exportable products of the United States; and that the mercantile marine of England, upon which American traders and manufacturers so largely depended for the export of the goods, would be unavailable, being required for military purposes. And yet, if a cold survey of actual facts had been made, it would have been apparent to the veriest tyro that the United States could hardly do otherwise than gain for the time being, because of the war in Europe.

The American Republic is a country of great economic resources and resourcefulness; and is now, and has been for years, almost completely self-sustaining. At the outbreak of war the gold held in the National Treasury as well as in the sub-treasuries, and in the National Banks and Trust Companies, was larger than any similar stock in Europe, even although the Bank of France was carrying at that time over \$900,000,000 in its vaults in the form of the yellow metal, and the Imperial Bank of Russia more than \$1,000,000,000. Moreover, the United States was, and determined to remain, neutral; and because of its geographical situation was placed in a position of entire safety with respect to any immediate danger because of the war. It is true that a great clamor was raised over the impossibility of securing dyes, chemicals, medicines, and so forth from Germany, and textiles and other materials from the United Kingdom, so essential for use as the raw products of American industry. The opportunity to replace these imports from Germany and Austria-Hungary by domestic products was quite overlooked; but according to a recent report of the Bureau of Foreign and Domestic Commerce the United States has made marvellous progress in the manufacturing of commodities that were formerly obtainable only in Austria-Hungary and Germany.

The Growth of American Exports.

At the outbreak of war it will be recalled, also, that Wall Street owed London on current account a little over \$500,000,000, an amount which would in ordinary circumstances have been discharged shortly by the exportation of cotton, wheat, and

other supplies from the United States. London, however, demanded immediate payment in gold. This American financial interests refused to meet, averring that such payment would disrupt the financial organization of the United States. American financiers were not bold enough to suggest that credits should be opened in New York to finance the sale of necessary war supplies to the Allied Powers, through which short time obligations to Europe might have been liquidated.

It was found, however, that by July, 1915, American exports to Europe had exceeded imports by the staggering sum of \$1,000,000,000; and that, in addition, New York had placed at the credit of the Allied Governments huge banking resources to finance purchases of war material. Within the first year, also, France had pawned millions of dollars worth of American railroad bonds in Wall Street; and before the Republic realized what had happened a wave of prosperity such as had never been experienced before had broken over the whole land. The nation-wide unemployment, which was characteristic of the first few months of war, disappeared; and American industries were keyed up to the highest point of efficiency, while scores of others were being established. The capital that had gone into hiding now reappeared; and the steel companies that, in a moment of panic, had deferred dividends, now made good these deficits; and their stocks soared. Moreover, the railroad reorganization which was essential in certain lines, and which had been abandoned, was now gone on with; and American traders, carriers and manufacturers piled up dividends to a dizzy height.

War Orders and Bumper Crops.

It was just a year before the appearance of this industrial and financial boom that New York City was compelled to pay 6 per cent on a \$100,000,000 loan to Wall Street, which was in turn to be used to discharge the city's obligation to English creditors. It was at that juncture that the Secretary of the Treasury accused the banks of hoarding; which was, indeed, precisely what they were doing, being apprehensive of future credit conditions. Let it be said here, and said with emphasis, that it was not because of the bold, clear-sighted or courageous policy of American financiers or of American publicists that the economic situation in the United States was saved. There is one explanation of the present prosperity that is dazzling the American people, and one only — war orders from Europe, coupled with bumper crops. These, however, were the gifts of the gods, and were not due to the energy or capacity of the financial leaders of the United States. Let this be remembered when one hears the claims put forward now by the financial and industrial interests of the United States with respect to the future relative position of New York and London. There is simply no comparison between the skill, the energy, and the consummate ability shown by the financiers of London at the outbreak of war, and the capacity for dealing with the situation exhibited at the same time by the leaders of American industry and finance.

The Railroad Situation.

American railroad men, partly because they saw what could be done in such a situation, and partly because they were really frightened at the financial and industrial outlook, were able to stampede the Government into advancing freight rates in the Eastern United States. The huge railway earnings secured since show that this policy will result in laying a heavy burden upon the American people for years to come. The railroads were well able to take care of themselves at the old rates. The railroad interests, however, asserted that the credit of the great trunk lines could not be kept unimpaired unless there was a general advance in freight rates. They maintained that the United States would now be cut off from European capital; and that, in the future, earnings rather than loans must be looked to to provide for necessary improvements. They, together with the financial interests of the United States in general, looked for higher interest rates, and therefore insisted that the only method by which the railroads could preserve their economic

position would be through an advance in rates. It has since been proved, however, that there is abundant capital available in the United States to look after the immediate interests of the railroads; and that, incredible as it may appear, after more than two years of war, and after rolling up the huge debt of \$17,000,000,000, England's financial position remains unimpaired, and that London will be able once more at the close of hostilities to finance legitimate undertakings not only at home but throughout the world.

England Responsible for U. S. Prosperity.

The United States has prospered, then, because of its increased exportation of grain, cotton, meats and war supplies of all kinds. It has been through the purchasing power of England in particular, however, that the United States has achieved industrial prosperity. The Anglo-French loan of \$500,000,000 and the recent loan of \$100,000,000 to France and \$200,000,000 to the United Kingdom mean simply that these two great nations have pledged their credit to American bankers as the basis for providing bankable funds. Most people get confused over the difference between "money" and "capital," and it is essential in this particular to make a clear line of demarcation between them. The United States has not furnished either England or France with gold, but simply with loanable funds placed at their credit in the banks of the United States. These funds were created in the first place, however, on the basis of the credit of the two great borrowing nations, and on the securities which were forwarded to the New York market from Europe. In other words, England and France have really financed themselves in the United States, and have used American bankers merely as intermediaries between themselves and the purchasers of war supplies. England, although she has mobilized vast amounts of American securities at home, has not disposed as yet of many of these in the United States. It must not be forgotten that the United Kingdom holds at least \$20,000,000,000 of foreign securities, including those of her own colonies; and that she has, since the outbreak of war, advanced at least \$4,000,000,000 to her Allies and to the Colonies. This last amount is a staggering sum when compared with the direct loans that have been made to the Allies by the United States. It will thus be seen that New York has not played that dominant role in the world of finance which American economists have claimed for it since the outbreak of war.

London's Financial Position Impregnable.

At the close of hostilities it is doubtful whether New York will be able to do much to finance the interests of Belgium, Poland, France or Russia. The yearly requirements of the United States for industrial and transportation purposes are scarcely less than \$1,000,000,000; and until the natural resources of the Republic are wholly exploited and the needs of the domestic market met it is not likely that New York will become a great international money market. On the other hand, Great Britain's economic position has not been seriously menaced by the financial burden of this war. Deducting the loans made to her Allies and the colonies Britain's national debt stands at the present time at only a little over \$13,000,000,000, in comparison with an annual national income of more than \$15,000,000,000. In addition, London has disposed of only a small part of its holdings of foreign securities since the outbreak of war; and it is altogether likely that, taking into consideration the \$4,000,000,000 of loans to England's Allies, more than \$22,000,000,000 are still invested abroad by the British people. More than that, despite the submarine warfare carried on by Germany, Britain's shipping has actually expanded since 1914, the nation still having at its command more than 20,000,000,000 tons to meet its own requirements, as well as for looking after the carrying trade of the United States. It is worth while remembering also that London has at its command more than \$7,000,000,000 of home rail securities, which may be used as the basis of further war loans, if required. It seems, therefore, that if hostilities close within a year from the present date London's financial position will remain impregnable; and that once again the international finance and trade of the world will be settled there. Of course, the United States will have gained in wealth enormously, and in banking power; but notwithstanding that fact New York will still remain a poor second to London as a money market. The nation that will feel American competition most, in the next decade, will be Germany rather than Britain. As far as Britain is concerned, from an industrial as well as from a financial point of view, it will be able to more than hold its own in the domestic markets and in the international trade of the world.