

# The Financial Statement

## Great Britain's Herculean Task of Financing the War, for Herself and Her Allies, the Greatest Achievement in the World's History.

(From The Commercial and Financial Chronicle, New York).

No one can withhold admiration for the way Great Britain is financing her own needs and those of her allies in the present gigantic and terrible war. Upon that country almost alone are devolving the financial arrangements of an international character growing out of the war, especially in the rectification of the foreign exchanges, and it is manifest that she is carrying the burden with superb ease. No achievement like it has ever previously been witnessed in the world's history, and in all probability the performance will never again be equaled. We may go further and say that it is at least doubtful if Great Britain herself will be able to repeat the present herculean undertaking after she gets through the war. The financial strain she is called upon to endure is of such a terrific nature and so exhausting withal that to assume she could continue it indefinitely or to renew it except after a very long period of recuperation and new wealth-building, would be to imagine her endowed with superhuman powers. The military prowess of this great conflict may belong to the Teutonic Powers. The financial prowess will ever belong to Great Britain. And yet so long as the war continues in progress a weakening process remains constantly under way.

England's financial strength on the present occasion is manifest in a twofold way. First, in the ability to provide the mass of gold and of securities necessary in making settlement for the tremendous foreign purchases which have been found indispensable by the Entente Powers, and, secondly, in the way the enormous sums of money needed for the prosecution of the war are being raised. After the tremendous shipments of gold to the United States last year, another huge gold movement to this country is now under way, the importations since the beginning of May having aggregated over \$150,000,000.

The nature of the task confronting the Entente Powers can be judged from the fact that for the month of May, according to the foreign trade statement made public the present week, the exports of merchandise from the United States aggregated roughly \$472,000,000, being at the rate of over 5½ billion dollars a year. Prior to the war our merchandise exports in any period of twelve months had never even reached 2½ billions. The increase is chiefly in the purchases of the Entente countries, since the Teutonic allies are blockaded and can get nothing from us.

In view of the task being imposed on Great Britain in taking care of the foreign trade requirements the question is an interesting one whether Germany's economic exhaustion could not have been brought about more surely and more swiftly if no blockade of her ports had been attempted, but instead she had been allowed to obtain goods abroad with the same freedom as that possessed by England and her allies. We may suppose that in that event her purchases of food stuffs and war materials would have been on a scale corresponding to that of the Entente countries, and then how could she have made provision for their payment? Most assuredly, she could not have obtained the gold, and it is obvious that she does not possess any very large aggregate of foreign investments, while the negotiation of a \$500,000,000 foreign loan here, like the Anglo-French loan of last October, would have been wholly out of the question.

Great Britain's position in the matter of its war financing—in the raising of money with which to conduct the war and prosecute it relentlessly and vigorously—is equally unique. Her expenses are £5,000,000 a day (\$25,000,000) which is at the rate of \$750,000,000 a month and \$9,000,000,000 a year. Nevertheless, it is fully twelve months since she has attempted any permanent war financing and, as a matter of fact, only two large loans have been brought out since the beginning of the war, the second one in June of last year, payments for which extended over July to October. In the interval since June, 1915, the British Government has been able to get from week to week and from month to month all the additional money needed through the sale of Treasury bills and the issue of short-term obligations.

It seems incredible and inconceivable that it should be possible for any country to raise at the

rate of nine billion dollars a year through temporary financing without becoming hopelessly involved, and yet that is precisely what Great Britain has done. Two prime elements of strength have made the achievement possible, namely, (1) her tremendous foreign investment, (2) her huge banking resources. So far as these foreign investments consist of security holdings, they have been in constant process of liquidation ever since the war began. No one needs to be told that during the last two years the sales of foreign-owned American securities have been of prodigious extent. These sales have yielded a double advantage, first, as an aid in stabilizing the foreign exchanges, and secondly, in creating an investment void which could be filled, and has been filled, by new issues of British Government obligations, short term and long term.

Banking resources have operated in the same way. It deserves to be noted in the first place that these banking resources, huge at the outset of the war, have grown yet larger in the interval since then. With British foreign trade on a reduced scale by reason of the war, the funds of the banks have been employed to a smaller extent in this way than before, leaving larger accumulations for home investment. In these circumstances, the great British Treasury bills and short-term obligations, the more so as these have been yielding large returns. At the same time, these British financial institutions have simultaneously been disposing of their holdings of American securities and replacing them, too, with new British Government obligations.

At the end of last month both "The Economist" and "The Statist," of London published some interesting statistics, comparing the condition of the banks of the United Kingdom at the end of 1915 with that at the end of 1913. These tabulations throw an interesting light on the banking situation in Great Britain, and also enable us to see how it has redounded to the advantage of the British Government. In the two years the resources of the banks of the United Kingdom (not including the Bank of England) have increased over a thousand million dollars—in exact figures £212,741,000. In the item of deposit and current accounts £201,000,000 of the increase is found, while notes in circulation have increased by £11,792,000, the remaining changes being in other items.

If we look at the other side of the account we find that besides the £212,741,000 of additional resources there has also been a release of money through a decrease in the employment of funds in some of the ordinary channels. For instance, the total of bills discounted is smaller by £40,995,000 and advances smaller by £7,495,000, both indicating diminished trade needs. Furthermore, the banks at the end of 1915 had £44,122,000 less out in money at call and at short notice.

All this has served to place a vastly increased body of funds at the disposal of the Government and accordingly we find that "investments" at the end of 1915 aggregated no less than £441,052,000, against £210,934,000 at the end of 1913, being an increase of £230,118,000, or \$1,150,000,000.

As to one thing, however, there should be no misapprehension. In disposing of her foreign investments and replacing them with domestic investments, or more specifically with new Government obligations, Great Britain is obviously getting financially poorer. For decades, almost for centuries we might say, the whole world has been paying annual tribute to her and it is this that has given her such a wonderful hold on the world's foreign trade and such command of huge capital funds which could be put, and were put, to reproductive uses in foreign fields.

All this is now being changed. Obviously, too, the longer the war lasts the more complete will be the change. As British foreign investments are reduced, so also will the income from the same diminish. And the depleting process is going on at such a rapid rate that it is by no means inconceivable that if the war is much further prolonged Great Britain's outside income may practically disappear. When that time arrives Great Britain will have only her home income to draw upon, and this will be at a time when domestic taxes and domestic burdens will be on a large scale than ever before by reason

of the prodigious increase in the national debt.

The point here made is useful as an illustration going to show that war is an enervating and exhausting process. When a country is perforce living within itself and upon itself, as is Germany at the present time, the havoc done is in large measure concealed and the destruction of wealth involved hidden from view. The manufacture of munitions and other incidentals of war creates a stimulus in certain lines of industrial activity which gives a false idea of prosperity, the activity being temporary and fictitious. But where a country is called upon to sacrifice its foreign investments of huge magnitude, as is the case with Great Britain, palpable evidence is afforded of the real destruction wrought by war.

### WESTERN CROP CONDITIONS FAVORABLE.

#### Reports from Section Served by the C. N. R. State Principal Crops Making Splendid Progress.

A telegraphic report uniformly optimistic in tone on the condition of growing grain, and embracing the Northern, Central and Southern divisions of Manitoba, Saskatchewan and Alberta, served by the lines of the Canadian Northern Railway System, was received at the head office, served by pany on Thursday. This report is confirmed by wired advices from the Department of Agriculture for the provinces concerned.

The Canadian Northern report points out that the weather prevailing over the western country from the eastern boundary of Manitoba to the Rockies is generally so favourable that the principal crops are making splendid progress. There are indications that in a few low-lying sections the grain has not yet entirely recovered from the backward early conditions. The details follow:—

#### Manitoba.

Northern Manitoba:—There were heavy rains during the week, but the weather is now turning hot. Wheat averages eighteen inches in height, and ~~grains~~ are doing well, though little backward in localities on account of moisture. Ten per cent of the wheat is in shot blade.

Central Manitoba:—Very warm weather following heavy showers makes for a condition ideal for growth. Wheat is about twelve inches high; in shot blade in several localities, and the grain is strong and of good colour. Prospects are very bright.

Southern Manitoba:—Considerable rain fell during the week, but hot weather is now prevailing. Average height of the wheat is fifteen inches, with about twenty per cent in shot blade. Crop generally in excellent condition.

#### Saskatchewan.

Northern Saskatchewan:—Grains are doing well. Wheat is twelve to sixteen inches high, and advancing rapidly; oats nine inches. Showers and cold weather have retarded growth somewhat in some localities, but with good weather from now on, crop should be very satisfactory.

Central Saskatchewan:—At many points conditions leave nothing to be desired. Grain in some districts a little backward, however, on account of rains. Wheat is from eight to twelve inches high. There has been no rain in the last few days, and warm weather is anticipated for the immediate future.

Southern Saskatchewan:—Weather conditions ideal, warmth following on showers. Crops are strong and healthy, and in every respect equal to last year. Wheat is more than twelve inches high, and about twenty per cent is in shot blade.

#### Alberta.

Northern Alberta:—Conditions generally favourable, but growth little slow in some districts, on account of wet weather. Situation considered generally satisfactory.

Central Alberta:—Weather conditions excellent in majority of districts, and prospects are bright. This also applies to Southern Alberta.

From the Department of Agriculture for Saskatchewan, word was received by the Canadian Northern, that crop conditions are excellent. Some wheat is in shot blade, and the cereal averages sixteen inches in height. Forty per cent of summer fallow completed. Hay promises a good crop and pastures are excellent.

The advice from the Department of Agriculture for Manitoba, is to the effect that Manitoba farmers report ideal crop conditions. Moisture plentiful and warm weather prevailing since June 30th.