

# Providing the Sinews of War

All Forms of Financing from Inflation of the Currency to the Issuance of Long-time Bonds Are Being Availed of by Europe to Obtain Means of Waging War.

London correspondent of *The Annalist* outlines financial steps taken to provide war funds by all the contestants. He states:

The period immediately following the outbreak of war in Europe was marked, as regards economic developments, by active measures in all centres, belligerent and other, to preserve the fabric of industry, finance, and commerce intact.

Abnormal military expenditure was met by emergency borrowing, usually from the central bank of each nation. Later, the various Governments began to reveal their plans for providing themselves with the funds for a prolonged conflict. The belligerent nations found themselves bound to meet the bulk of their requirements from their own revenues alone. Thus, the measures taken can usually be described as a financial mobilization. In only one case, and that a non-belligerent, Holland, can the principle of compulsion be said to have been openly introduced.

Any remarks on this subject of war finance should be prefaced by the observation that opinion in this country at least is inclining to the view that difficulties of Government finance are not likely to play a large part in the decision of this war. On all sides the peoples are behind their Governments, and the belief here is that so long as any nation can procure the supplies necessary for military purposes from her own sources, or pay for the necessary imports by exports of goods or gold, that nation will go on fighting, if her armies are not decisively beaten. Your correspondent was present the other day at a private gathering of bankers of the more reflective type and economists from Cambridge University, and this was the view of the majority of those present:

England's problems were more complicated than those of the other belligerents. This country found herself suddenly forced to multiply her military forces by ten, and indeed to create new armies for which practically no organization existed before. She also had to return to her historic role of Europe's paymaster, and, in addition, to finance the self-governing Dominions. In regard to this, all that can be said at present is, that according to official statements the British Government has already advanced £10,000,000 to Belgium, under £1,000,000 to Servia, £5,000,000 to Egypt, and is in process of advancing £42,250,000 to the self-governing British Dominions. This is apart from special credits granted in London to our allies, a matter in which the Government has had something to say indirectly.

The British Government, almost alone among the belligerents, has had the courage, and as we believe the good sense, to meet a part at least of its war expenditure by means of extra taxation. The British financial year ends on March 31, and up to that date the additional taxation is estimated to yield £15,500,000, of which £12,500,000 from the increased income and super-tax, and £3,000,000 from the additional duties on beer and tea. The increased taxes will be in force for the whole of next year, when they are expected to yield £65,000,000, of which the income tax is expected to produce £44,750,000, beer £17,000,000, tea £3,250,000.

The British Government has to date borrowed £474,000,000. Of this, £82,500,000 has been raised by issues of six months Treasury bills, which fall due during the period from February to May of 1915, and £7,500,000 of yearling Treasury bills. The general belief at present is that when these bills fall due and are repaid they will for the most part be replaced by others. The average rate of discount for the whole £90,000,000 was just over 3 11-16 per cent. The money market, which holds them, is suffering, and likely to go on suffering, from a shortage in the supply of

the ordinary bills, the commodity in which it deals, hence the popularity of Treasury bills. The Government has also borrowed since the war began on balance £34,638,000 at the time of writing from the Bank of England. These are temporary advances repayable at any time, and their amount is likely to be reduced shortly.

The backbone of British finance is, however, the war loan of £350,000,000, issued at 95, bearing 3½ per cent. interest, and redeemable in 1928. To this summary of war borrowings an item of £14,000,000 ought perhaps to be added. It will be remembered that at the outbreak of war currency notes were issued by the Treasury to the banks. These are Government notes, unlike the ordinary banknote which is issued by the Bank of England, and redeemable there in gold, but the currency notes are also redeemable there in gold. According to the last return, all but £1,000,000 of the £34,000,000 in circulation had been paid for in cash by the banks to which they were originally advanced. The Government had accumulated a gold reserve of £13,500,000 for their redemption, and held a balance of under £6,000,000 at the Bank for account of these notes. The remaining £14,000,000 of the proceeds of the note issue had been invested by the Government in its own securities. In what securities is unknown, but not in the war loan.

It is this £14,000,000 which it was said alone ought probably to be added to the total of British borrowings, which would thus amount to £488,000,000 in all. The whole of this sum is not yet in the hands of the Government, because the war loan is paid up by installments. It has all been raised within the British Isles, and the bulk of it will be spent there on military supplies, etc. It should be added that part of the expenditure of the Indian troops operating in Europe, Egypt, and Africa is borne by India, while the Indian Government in order chiefly to equalize exchange has had to borrow in the London market on bills a sum of £7,000,000. It may be said also that for the financial year to date, the total expenditure of the British Government has been £239,000,000 against £119,000,000 for the corresponding period of last year. This excess of £120,000,000 for just under four months of war indicates that the war expenditure is £1,000,000 a day, as estimated by the Prime Minister.

The methods adopted by the German Government to finance their military operations are perhaps the most interesting of any. Its problem is simpler than that of the British Government, but on the whole harder. Thanks to careful preparation in advance, courage, and enlightened patriotism on the part of its people, the results so far have been remarkable. For Germany is not really a creditor country like England, and the resources of German banks and private individuals which can be mobilized in an emergency are less than in England, though the productive power of the country, with its larger population, is probably greater in peace time, when the best of its youth and strength can devote themselves to the occupations of peace. On the outbreak of war, the war reserve, including £10,250,000 in gold, was immediately transferred to the Reichsbank. This made mobilization possible without undue dislocation of business.

Then the German Government, like the British, began to borrow by the issue of Treasury bills. On what terms the issue was made is unknown here, because the bills were not issued in the open market, but deposited with the Reichsbank, which had meanwhile been relieved of its obligations to pay notes in gold. During August and September about £120,000,000 was so borrowed. Then the war loan subscriptions began to flow in, and part of the Government's borrowings from the Reichsbank were repaid, so that by the end of November the Government only owed the Bank about £73,000,000. The amount of this debt is not clearly shown by the Reichsbank return as published,