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World Banking and the War

IMPORTANCE *of Finance as a Factor in the Struggle—Little Destruction of Pre-War Capital Has Occurred as Yet—How the Neutrals Benefit—Addition to Wealth During the War Will be Very Small.*

JUST as the world's banking system was one of the principal agents that rendered possible the unprecedented expansion of production and of wealth in the past century, so in the existing struggle it is by far the most important part of the machinery for enabling these fighting forces of limitless power to be brought into and maintained in action.

So says Sir George Paish in an instructive article in The Statist. He continues:—

In brief, the great inventions and the highly developed machinery of production and of distribution, which have made such generous contributions in modern times to the general well-being, are now being devoted not to increasing the productivity of the world, but to diminishing it, and both life and treasure are being destroyed on a scale so vast that the mind is almost incapable of comprehending the extent of the destruction or all that it involves.

The highly developed machinery of banking is contributing its full quota to the work of carrying on the war in all the belligerent countries; indeed, without its contribution the war could not be continued for more than a few days, for it is through the banks that most of the money is collected from the public for carrying on the war. Indeed, no small part of the vast sums of money expended on the war is banking money, as distinct from investment money, and it is the money lent by bankers, both directly to the governments at war and indirectly by loans to investors, that is providing the greater part of the funds expended upon the war.

Before one endeavors to form some idea of the contributions which bankers are making to the funds for carrying on this great war, and of the total sums expended, it is essential to realize certain fundamentals if one is to avoid false conclusions and erroneous deductions. The importance of forming a correct view of the financial effect of the war will, of course, be obvious, especially in discussing the effect of the war upon the position of banks both in belligerent and in non-belligerent countries.

The first thing to recollect is that the war does not mean any appreciable destruction of the world's capital as it existed prior to the war. Where property (houses, ships, machinery, etc.) is injured by gunfire, by bombs, or in any other way, or houses, buildings, machinery and other property are allowed to deteriorate, or stocks of goods accumulated before the war are consumed and are not replaced, there is destruction of pre-war capital; but even during the war the construction of houses, factories, ships, etc., is continuing in most countries, and, as far as it is possible to come to a conclusion, the wastage of old wealth through the war is made good, or nearly made good, by the creation of new wealth of a permanent character. Whether or not this condition of things will continue throughout the war cannot be foretold. As the war becomes more and more costly it is possible that no new buildings or houses will be erected in the belligerent countries, and that the maintenance outlays will be inadequate; but unless the war is a very long one it may be doubted if there will be any substantial reduction in the pre-war wealth of the belligerent countries due to these causes, while the wealth of the neutral countries as a whole should show appreciable increase. The increase in the latter will not be nearly as great as it would have been but for the war; still, it should be appreciable.

The wealth destroyed by the war will consist, first, of the savings that would have been available for new construction in the countries engaged in the war, or which may be lent to them by other countries, who but for the war would have employed their savings in adding to their own productive power; and, secondly, of capital withdrawn by a belligerent nation from other nations and consumed by it, a process which involves the payment of the capital withdrawn by the nation which loses it out of its savings, and a consequent reduction of the amount of its savings available for reproductive purposes.

In brief, the existing great war expenditures do not involve a diminution in the aggregate wealth of the world as it existed prior to the war, but it does mean a very small addition to that wealth during the war, and that the addition to the wealth of non-belligerent countries will be in some measure neutralized by the diminished wealth of belligerent countries which suffer either from the destruction of property, or from need to borrow abroad or to sell their foreign investments in order to meet their war expenses.

Having regard to the military tactics hitherto pursued of trench fighting, and of not defending populous towns, it is evident that the destruction of buildings, houses, and other fixed property by the war will not be great. The damage to property caused by Zeppelin raids is, of course, negligible, and the destruction of shipping by submarines is quite unimportant. Moreover, so far