

Investments of the Belligerent Powers

The Financial Aspect of the War, and Britain's Predominating Position

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It was freely predicted at the outbreak of the great European war that the belligerents concerned would not be able to finance themselves for more than a few months, for the expenditures involved in any great modern war are of such colossal proportions that it appeared certain that financial necessity in itself would put an end to hostilities. Events, however, have proved the contrary, and financial considerations alone will hardly terminate this struggle. Germany, from the international point of view, is already bankrupt, for she is no longer able to redeem her outstanding obligations in gold. Nevertheless, the Teutonic Powers have enormous resources at their command to serve as a basis of credit; and, therefore, as far as domestic finance is concerned they are well able to continue the struggle for two or three years more.

Indemnity.

Whether they will be able to extricate themselves, however, from their financial difficulties at the close of the war is another matter, and depends altogether on whether they are permitted to resume their former trade relations with the Allies and the markets that they control. Another point that should be noticed, in passing, is that the Allies need not scruple to put a heavy indemnity upon the Central Empires with which to reimburse Belgium, Serbia, and Poland for the losses that they have suffered during the course of this struggle; for such an indemnity could be paid in the form of bonds which might be sold in the international money markets of the world. Germany and Austria could hardly repudiate these obligations under the conditions that would be laid down in any treaty of peace; for it is not to be expected that the Allies will loosen their grip upon Germany's ports and trade before they are well satisfied that the Central Empires will live up to the terms of the compact that will terminate the war. Such bonds as are issued for indemnity purposes would represent a mortgage on the future earning power of the people's of the Central Empires, and would depend for their repayment upon the fruits of Germany's trade and commerce as well as that of Austria-Hungary.

In other words, it is now evident to all close observers of the international financial situation that money in itself plays a relatively small part in the financing of any war, or, indeed for that matter, the ordinary commercial and industrial operations that obtain during peace times. It is not upon gold that the solvency of nations depends in the long run, but upon their capacity to produce economic goods that will find a market throughout the world. From this point of view it is doubtful whether, providing that Germany and Austria meet the conditions laid down by the Allies, it would be well to exclude them from commercial relationship with Russia, Italy, France, Great Britain and their colonies and dependencies. Germany and Austria must be given the opportunity to preserve their own credit at home, not only for themselves but for the good of humanity at large. It will not be well for the world if 115,000,000 of progressive, intelligent, and enterprising traders, manufacturers and wealth-producers are excluded from playing their proper role in the economy of the world's trade and industry.

The Allies Advantage.

It should not be forgotten, however, when surveying the present financial resources of the various belligerent powers, that the Allies have an enormous advantage over their enemies. This is shown in the fact that Great Britain and her Allies are free to purchase goods and war materials in almost any quarter of the world, while the Central Empires are excluded from access to the High Seas. Moreover, Great Britain and France were great lending countries before the outbreak of the war and are able in large part to take advantage of the resources that they have built up in past years in various quarters of the world. Germany was also a great lending nation, but, unfortunately for the Central Powers, the capital was placed for the most part in countries that are within the war zone, and hence the income from these investments is not available to any great extent. The United Kingdom, however, before the war had at least \$20,000,000,000 invested

in Canada, the United States, Argentina, Brazil, India, Australia and many other countries. On this enormous sum in normal times Britain derived an income of at least \$950,000,000 which income has since been maintained in large measure. It may at least be conservatively estimated that the United Kingdom is receiving still about \$500,000,000 on her investments abroad, while over half of the capital invested by British bankers and other financial interests has been placed in North and South America, countries which are well beyond the zone of war. Moreover, in recent years the United Kingdom has shown a tendency to sell European securities and to place the proceeds in the newer and the rapidly developing states of the world. With the exception of Russia, indeed, the United Kingdom has very little invested on the Continent. On the other hand, France, the second greatest lending power of the world, has about \$9,000,000,000 invested abroad, upon which the Republic receives a normal return of \$450,000,000. France has placed its money largely in Russia, Italy, Austria, Turkey the Balkan States, and also in Germany, holding only small sums in the Americas. French investors have always shown a strong preference for government bonds, even although they have yielded only a small interest. The French prefer to keep their capital safe and near at home rather than to speculate for high profits in the distant markets of the world. Germany has probably \$6,000,000,000 of foreign investments, upon which she received in anti-bellum days an income of about \$300,000,000 a year. But Germany's investments, unfortunately for that Power, have been placed, for the most part, within the war zone—in Russia, Austria, Turkey, and Asia Minor. German bankers, however, have lent large sums also to the United States and various South American Republics and have also invested considerable amounts in Canada and the United States, particularly in C. P. R. and Union Pacific securities. The Germans have indeed been far more adventurous than the French, and have not played "safe"; being willing to lend for long periods and at considerable risk to the Near East, to China and to South Africa. It will thus be seen that both Germany and France are not in nearly as favorable a position with respect to current income on foreign investments as is the United Kingdom today. In fact, it may be well believed that, considering the finances of Turkey and Austria-Hungary, the Fatherland has been called upon to support in large measure the financial burden of these two States since the outbreak of war.

Russia was a great borrowing State previous to the outbreak of hostilities, and has since been compelled to enter foreign money markets to secure the capital necessary to finance war expenditures. Russia has borrowed a great deal from France and Germany; but since the outbreak of war has relied principally upon the United Kingdom for loans. Germany invested enormous sums in Russian railways and manufacturing and mining enterprises, the interest upon which, of course, is unavailable as long as the present struggle lasts.

Great Britain's Investments.

It should be observed, however, that Great Britain's investments are relatively safe, being largely outside of the war zone, and scattered over many prosperous countries throughout the world. Aside from Britain's investments in Turkey, in Asia Minor and in Russia, she is able to count upon a fair return on her money as long as the war lasts, and moreover, it should be noted that although England's national debt now stands at the colossal figure of more than \$17,000,000,000, yet of that vast sum more than \$4,000,000,000 represents advances either to her Allies or her colonies and dependencies. It may be deduced, therefore, that the United Kingdom's foreign investments have not decreased in amount, but have rather grown since the outbreak of hostilities; and that although she has sold considerable blocks of securities in the United States she has not been obliged to sacrifice any of her holdings. Indeed, the astonishing financial stability and power of the United Kingdom has proved a revelation to the rest of the world, although it was known and realized that she would be called upon to bear the financial

brunt of the war and that her resources were very great. England owes her strong financial position largely to the fact that her navy absolutely dominates the high seas, thus permitting her to buy and sell freely with three-quarters of the world. In addition, although last year her imports exceeded her exports by more than \$800,000,000—largely on account of war purchases in the United States—yet she was able without exporting any appreciable amount of gold to settle this adverse trade balance. Although over 9,000,000 tons of British shipping are required for war purposes alone, the commercial earnings of Britain's merchant marine totalled last year more than \$250,000,000. Add to this a sum of from \$450,000,000 to \$500,000,000 on account of interest on foreign loans, and it will be seen that the adverse balance was practically settled from these two sources alone. But it must not be forgotten that in addition London is still carrying on a huge commission business, and that England has still the paramount position in the insurance business of the world. It is thus evident that, when the increased earning power of the British people themselves is considered, the United Kingdom will be able with comparative ease to carry the financial burden imposed by the war for a long time to come.

The Real Waste.

It is not contended, of course, that Great Britain is not suffering on account of the war. Her economic losses have been severe and it will take a generation of strenuous endeavour to make these losses good. The real waste that is taking place is not the waste of money, as some superficial observers suppose, but the actual destruction of labor power and the products of past industry. Indeed it may be said with some degree of authority that the greatest loss to Europe today is the loss of labor power and not the financial waste of the war. If the United Kingdom, then, is able to retain its command of the Sea and prevent invasion it is quite possible that, with its great merchant marine its wonderful credit organization, its new and modern industrial equipment, and its new supplies of labor available through the work of women, a new and greater era of prosperity will open up for her people than has even been known before. There is little ground for pessimism at any rate, as the economic wants of the people have certainly not diminished and the demand for goods will be relatively as great, if not greater than before. For the supplying of those demands in all the markets of the world Great Britain will be in a position of splendid superiority.

COST OF LIVING.

Prices showed a downward tendency during July, both the budget of retail food prices and the index number of wholesale prices being down slightly, according to the index figure of the Department of Labor. A list of 30 staple foods cost \$8.46 as compared with \$8.51 in June, \$7.80 in July, 1915, and \$7.42 in July, 1914. The wholesale prices index number stood at 178.8 for July, as compared with 180.6 in June, 150.2 in July, 1915, and 134.6 in July, 1914. In retail prices mutton, salt pork, milk, butter, potatoes, beans, evaporated apples and prunes declined slightly but beef advanced somewhat. In wholesale prices, fodder, cattle and beef, sheep, fresh fruits, soda, raw silks, jutes, tallow, metals, chemicals, raw furs averaged lower, but grains, hog products, dairy products, vegetables, breadstuffs, woollens, cottons, flax products, leather, implements, paints, oils and glass, iron beds, and sundries averaged higher. Retail prices of coal and wood also averaged higher. As compared with July last year, prices were higher in all groups except Grains and Fodder. In the retail prices of foods all commodities were higher than in July, 1915 and 1914, except milk. Rent, however, averaged lower.

THE DEUTSCHLAND'S MANIFEST.

Contrary to reports, there was no gold in the cargo of the German merchant submarine Deutschland when she sailed from Baltimore on her return voyage to Germany August 1st last, according to the underwater liner's manifest. Her cargo consisted only of crude rubber, bar nickel and crude tin and weighed 1,735,760 pounds, according to the Custom House figures.

Ted: Tom is trying to raise money. I guess he has to remargin his stocks.

Ned: Yes; he told me the war brides he invested in are calling for more alimony.—The Lamb.