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BRITAIN'S
FINANCIAL EFFORT

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BRITAIN'S FINANCIAL EFFORT.

THE MEANS OF VICTORY.

IF this war has brought no other compensations for the terrible losses it involves, there will at least be agreement that it has added materially to the average man's stock of information. The ordinary stay-at-home American or Briton has been turned by the war, for instance, into a geographical expert familiar with the lie of the land, the contours, the rivers, and the woods of areas the very existence of which was probably unknown to him three years ago. So it is also in the world of economics. We all of us know now that the wealth of a nation lies in the brain and muscle of its inhabitants, coupled with any natural advantages they may enjoy for controlling the material of industry and agriculture. Thus no one is likely to fall now into the old error of confounding that part of a nation's income which is annexed by its Government for public ends with the income itself. The present article, stimulated by the speech delivered on 2nd May, 1917, by the British Chancellor of the Exchequer, is here concerned with some aspects of the financial effort made by Great Britain as expressed in the revenue from taxation and the expenditure on war of the British Government.

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But, owing to the growth of general information referred to above, the reader will not therefore conclude that this is an attempt to analyse the whole economic position of the Allies, or even of Great Britain. The present writer, being himself engaged in business, has simply thought that other business men may be interested in the course of British national finance from the outbreak of war to the time of the full entry into the struggle of the United States.

THE POLICY OF FRANKNESS.

The task of explanation is made easier by the fact that the British Government has maintained, despite the difficulties caused by the war, its old policy of frankness in regard to finance. Whereas the Germans can barely produce a caricature of a budget once a year, the British Government supplements frequent statements of financial policy by its public men with quarterly and even weekly returns of national revenue and expenditure. Private business in England has followed the same course. In Germany real foreign exchange rates, for example, may not be published, and only one shipping company continues to issue its balance-sheet. Germany, like every other country now at war, meets an important part of its war debt by issues of Treasury bills and other very short term notes; but it is impossible for the German public to know accurately the extent of their Government's liabilities under this head. The British, on the other hand, announce every week the full extent of their liabilities

on Treasury bills, temporary advances made by the Bank of England, and so forth.

THE FIGHTING SERVICES.

Thus in considering Britain's financial effort we have better and fuller information on which to work than is usually the case in Europe. One may then begin by giving a few simple figures in regard to the money which had been spent by the British Government on the prosecution of the war up to the time of America's entry. It may be best to take first the actual expenditure of the departments of Navy, Army, and Munitions, and give some examples thereof at different periods of the war. From 1st April to 17th July, 1915, the sum spent by these three departments was 1,208 million dollars. Between 20th February and 31st March, 1916, the expenditure under the same three heads had increased to a rate of just over 15 million dollars a day. Between 23rd July and 7th October, 1916, the amount spent was 1,420 million dollars, or nearly 20 million dollars a day. Between 1st April, 1915, and 7th October, 1916, the total expenditure on Navy, Army, and Munitions came to just under 7,500 million dollars. Here it may be pointed out that the direct expenses of the Northern States during the whole of the American Civil War have been estimated at about 3,330 million dollars; that is less than half the amount spent by Great Britain on Navy, Army, and Munitions in only eighteen months of the present campaign. This contrast is made, not with the view of comparing the

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value of one effort with another, but of putting the financial demands now made on Great Britain in some sort of historical proportion.

One may further trace the rising curve of the total expenditure of the British Government since the beginning of the war. For the first four months of the struggle the expenditure averaged 4.3 million dollars a day; during the first quarter of 1915 the daily rate passed above 7 million dollars. By the middle of July of that year the daily bill was 15 million dollars, and only three months later it was $17\frac{1}{2}$ million dollars. By February, 1916, the rate was 22 million dollars, by May 25 million dollars, and by 8th October, 1916, $28\frac{1}{2}$ million dollars a day. Since then the daily rate has passed the 30 million dollar line, and now the Chancellor of the Exchequer for the year 1917-18 is budgeting for a total daily expenditure of $31\frac{1}{3}$ million dollars, supposing the war to last so long.

THE BASIS OF SOLVENCY.

The extent of this financial effort made by Great Britain is of essential interest to all who wish to form a fair judgment of the nature of the war. Particularly is this the case when one bears in mind that the financial effort has gone side by side with a military effort for which no one in Great Britain was, before the war, prepared, and that in a country governed by representative democratic institutions want of national unanimity quickly shows itself in the failure of the Government to obtain the funds necessary for its plans. But of still greater

interest is the *method* by which a belligerent country raises the funds it has been necessary to spend. If we find a country following the advice of the last German Finance Minister, that, "As things are, the only method seems to be to leave the settlement of the war bill to the conclusion of peace and the time after peace has been concluded," we can usually assume that there is something wrong. For, unless invasion or some similar military cause has dislocated the economic life of a nation, failure to meet a good proportion of the war bill out of taxation has always indicated that the nation in question is either gambling wildly on quick victory or has not sufficient confidence in its Government to face the economic facts. President Wilson rightly laid stress on the necessity for meeting as much of the war costs as possible out of revenue, and this has been the policy of Great Britain for over two and a half years of hard fighting. As a former British Chancellor of the Exchequer said, "When on examination it appears that we never borrow a pound without making provision in advance by new taxation, sufficient to cover both interest and a liberal sinking fund, the foundations upon which alone national credit can be built up are exposed to view."

MEETING THE BILL.

To show that British practice has justified this boast one may take some of the figures of Britain's national accounts. The British financial year ends on 31st March, and below are given the figures of revenue actually realised for the last three financial

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years, which included four months of peace up to August, 1914:—

REALISED REVENUE.				MILLIONS OF DOLLARS.
1914-15	...	...	...	1,133
1915-16	...	...	...	1,685
1916-17	...	...	...	2,864
				<u>5,682</u>

Now, the estimated revenue for 1914-15 was nearly 1,036 million dollars, this estimate being based on the expectation of a normal year of peace. As will be seen from the figures above, the estimate was in practice exceeded, this surplus being the first fruit of the new war taxation. But taking the estimated peace revenue as a normal basis we may make the following sum:—

				MILLIONS OF DOLLARS.
Realised revenue, three years to 31st March, 1917	...	...	...	5,682
Less normal peace revenue on 1914-15 basis	...	...	...	<u>3,107</u>
Yield of war taxes to 31st March, 1917	...	...	...	<u>2,575</u>

Thus, in spite of the fact that many folk have lost heavily by the war, the British people have, through their Parliament, imposed on themselves in two years and eight months some 2,575 million dollars of extra taxation, and this while raising an army of five million men.

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WHAT TAXATION HAS CONTRIBUTED.

Take this question from another aspect, and consider a summary of the actual receipts and expenditure of the British Government from 1st August, 1914, to 31st March, 1917:—

	1ST AUGUST, 1914— 31ST MARCH, 1917.	MILLIONS OF DOLLARS.
Actual expenditure	21,278
Increase in Government cash balances	107
		<u>21,385</u>
Less normal peace expenditure	2,760
Net war expenditure	<u>18,625</u>

Before considering these figures further it will be well to give one more table in which the expenditure is set out in greater detail:—

	1ST AUGUST, 1914— 31ST MARCH, 1917.	MILLIONS OF DOLLARS.
<i>Spent.</i>		
Normal peace expenses	2,760
Advances to Allies, etc.	4,800
Other war expenses	13,825
		<u>21,385</u>
<i>Received.</i>		
Yield of all taxes	5,410
Net borrowings	15,975
		<u>21,385</u>

The figures being duly (and let us hope not too tediously) set out, one can quite easily measure the

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proportions in which the British people have met their war bill out of taxation as opposed to borrowing. Leaving out of account altogether peace revenue and peace expenditure, we can see that against 18,625 million dollars of war expenditure there have been raised 2,575 million dollars of extra war taxes—a proportion of 1 dollar of purely war tax to 7 dollars 23 cents of purely war expenditure. Taking the total spent during the period of the war on all services, and comparing it with the total sum raised by war taxes (21,278 and 5,410 million dollars respectively), we get a proportion of 1 dollar raised by taxation to 3.93 dollars spent on all accounts. If we rule out of the expenditure the loans to Allies, etc. (money which should in due course be returned in one way or another), we get a proportion of 1 dollar raised by taxation to 2 dollars 56 cents spent on all accounts except that of loans. Both the economist of whatever nationality and the patriotic Britisher may safely contemplate these figures with satisfaction.

PROVISION FOR DEBT REDEMPTION.

The estimates for the year which will end on 31st March, 1918—estimates made on the hypothesis that the war will go on throughout that period—show that the same conservative financial policy as before is to be maintained. The levy on war profits is raised from 60 to 80 per cent., and with the help of an additional duty on tobacco the revenue of the United Kingdom for the year should amount to 3,190 million dollars. But part of this revenue, the excess profits duty, will not be available after the

war, and thus the framer of the first peace budget will lose 1,000 million dollars of annual revenue on the present scale. He may also expect to lose some 90 million dollars of special war revenue from other sources. This will leave a budget-maker a reasonable expectation of 2,100 million dollars of revenue. This will provide, with a small margin, for war pensions and other permanent additions to expenditure, for the maintenance of ordinary expenditure by the Government on the same level as before the war, and for putting the whole of the debt on a $5\frac{1}{2}$ per cent. basis. Now, the actual average rate at which money has been borrowed has been $4\frac{3}{4}$ per cent., and on this basis of $5\frac{1}{2}$ per cent. it would be possible to redeem the whole of the war loans issued for Great Britain's own account in under forty-three years. This is supposing the war to last till 31st March, 1918, and is making no allowance for the recovery of normal revenue from such services as the Post Office when peace conditions return.

A COMPARISON WITH GERMANY.

Compare the position in this regard in Germany with that of England. If peace comes a year hence (supposing no indemnities on either side) the English taxpayer will have no fresh burdens to face. The German taxpayer, on the other hand, will have to pay thrice as much as before the war, unless his Government is to meet its annual deficit by fresh borrowings to meet interest on old ones—this, too, when all Germany's economic strength will be required to restore the depreciated German Reichsmark as a necessary preliminary to the rebuilding

of German foreign trade. Here business men who are normally unconcerned with politics can detect another of the many reasons which in Germany, and not in England, induce the Government to keep the people ignorant of the real financial situation until the gambler's last desperate throw has been made. The British Government's receipts for 1917-18 will show an increase of 2,150 million dollars compared with the last year of peaceful conditions; the receipts of the German Government an increase of 310 millions. Which of these nations is facing the facts?

THE PEOPLE'S SAVINGS.

It has been shown above to what extent the war costs have been met by taxation in Great Britain, and to what extent by loans. It may not be out of place to give some particulars of these same loans. Large amounts have necessarily been raised by short term Treasury bills and similar securities suited to the needs of bankers. There have also been from time to time issues of Exchequer bonds which were subsequently converted into longer-dated loans. But the ordinary man is more concerned to know about the real war loans—loans offered to the public and the investing classes generally, and subscribed out of savings or accumulated wealth of some sort. There have been three big British war loans of this sort, with the result set out below:—

	AMOUNT.	NUMBER OF SUBSCRIBERS.
1st War Loan ...	1,750 million dollars	Not stated
2nd " " ...	3,080 " "	1,100,000
3rd " " ...	5,000 " "	5,289,000

It will be seen that each loan has been more successful than its predecessor in proportion as the "nation of shopkeepers" realised the seriousness of the issues involved. Further evidence of the extent to which the British people of all classes have confidence in their cause and in the soundness of their financial system is to be found in the successful issue of War Savings Certificates. These are certificates which are to be bought at any post-office for 15s. 6d. They carry no yearly or half-yearly interest payments, but are repayable after five years at the price of £1. Thus they are only bought by people who have money genuinely to save—the interest, equal to 5 per cent., is not exorbitant—and no one person may hold more than 500 certificates. At the end of April, 1917, no less than 100 millions of these certificates had been sold.

TWO TESTS OF SOUND POLICY.

Puddings' proofs lie, by tradition, in the eating thereof. The arguments above show, it is hoped, the great extent of Britain's financial effort. The proof that this effort has been cleverly as well as energetically made lies in the fact that despite everything British credit abroad is maintained. To over-emphasise a fact so patent to all concerned with international finance would be tedious. One may, however, take two of the many instances that go to prove this thesis. Before America came into the war the New York financial market was open to all European borrowers alike. All needed the help of

American dollars. Up to the end of 1916 American bankers and investors had extended to Great Britain, on the merits of British credit, 1,125 million dollars of loans; to Germany they had loaned 20 million dollars. There was no need for Americans to lend this money to England if they doubted the security, for America was not yet pledged to the overthrow of Prussian militarism and autocracy. British finance got what help it needed on its merits, just as American finance got the help of London and Paris in 1907, because England and France believed in the ultimate solvency of the United States. The Germans could not borrow in New York, because their financial methods had put their solvency, even in the early days of the war, in question. The other instance that may be taken to show the soundness of British methods is the test of exchange. Foreign exchanges are in appearance complicated things, but in essence simple. The value of, say, pounds sterling in a neutral city, say Amsterdam, is the price which Dutchmen will give for money in London. The value of the German mark in Amsterdam is what Dutchmen will give for money in Berlin. Amsterdam is near enough both to England and Germany, and in close enough relations with both, to make the comparison a fair one. What does the comparison show?

The English pound has, since the war broke out, never shown a depreciation of as much as 11 per cent. in Amsterdam, and subsequently it has recovered to a depreciation of only 3 per cent. The German mark by the middle of April, 1917, showed a depreciation of $37\frac{1}{2}$ per cent. in the same city, and

this depreciation was also the greatest since the war began, there being apparent little or no power of recovery.

THE WILL TO WIN.

The English have been called a "nation of shopkeepers." Without admitting that there is anything wrong in being a shopkeeper, they have accepted this description of themselves. Despite the magnitude of the military effort put forth by Great Britain in this war, the influence of business, commerce, and industry remains great in the government of the country. That is the chief reason why the present writer has thought it worth while to describe at length one part, and one part only, of Britain's economic effort. Readiness has been shown by the "nation of shopkeepers" to face the financial facts, to tax itself heavily and quickly to meet the costs of war, and never to allow its national finance to rest on any but a secure basis. These are difficult things for a self-governing community to do. It is easy to say that we are giving our lives to ensure peace for our children, and that it is they who ought to bear all the financial burden. But the British democracy has not yet yielded to that subtle temptation. It has shown its determination that the foundations of future peace shall be well and truly laid, financially and otherwise. This is the fact which, to one business man at least, gives dramatic significance to the array of figures with which he has troubled the reader above. Figures can be dull, but not so dull as to obscure the fact that British financial policy in this war has been the embodiment of the

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will of the people about the war as a whole—that it should be fought hard, and fought honestly, and brought to an end on a basis that will ensure that no further attack be made by a pirate nation on the liberties of the world.