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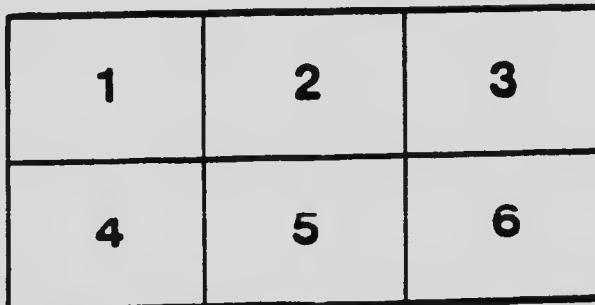
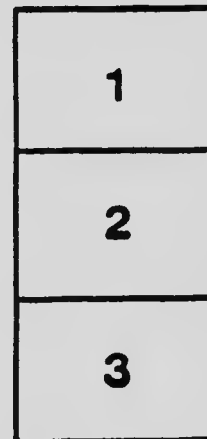
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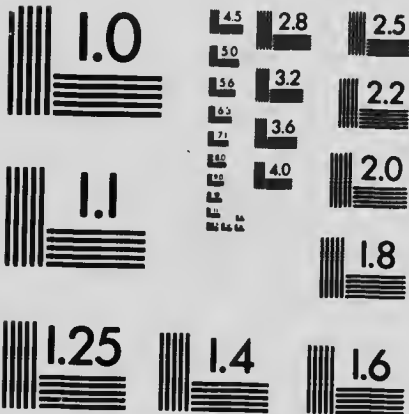
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ENGLAND'S FINANCIAL SUPREMACY



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ENGLAND'S
FINANCIAL SUPREMACY

A TRANSLATION OF
"DIE ENGLISCHE FINANZVORMACHT: ENGLAND'S
FALSCHRE RECHNUNG: DEUTSCHLAND UND
DIE ERBSCHAFT DER CITY"

FROM
THE "FRANKFURTER ZEITUNG"

WITH INTRODUCTION AND NOTES
BY THE TRANSLATORS

MACMILLAN AND CO., LIMITED
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1917

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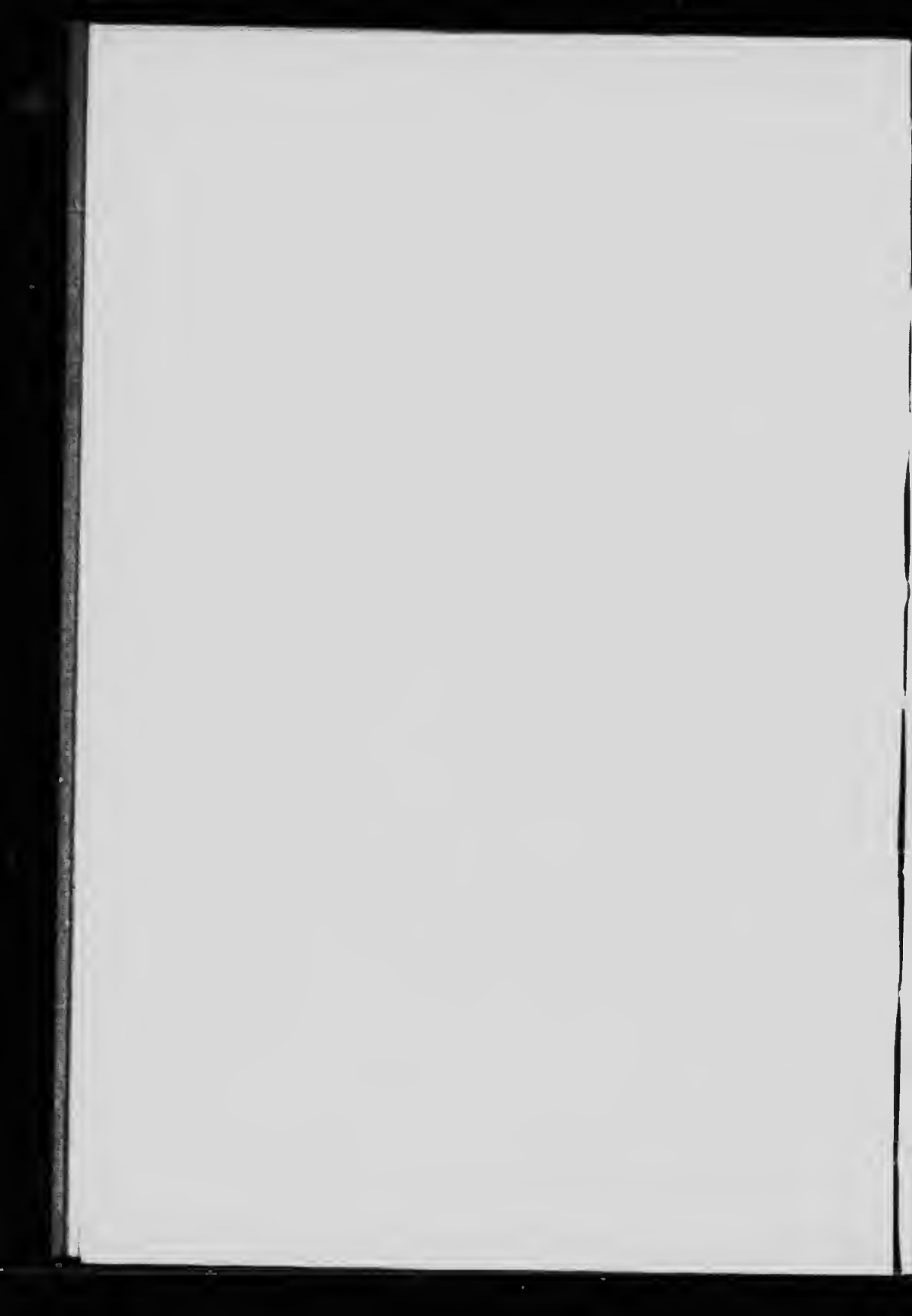
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TRANSLATORS' INTRODUCTION

THE series of articles here translated and presented to English readers appeared in the *Frankfurter Zeitung* during the month of November, 1915, and were later republished by that journal in pamphlet form. It is claimed by their German author that they represent an impartial study of the English money market ; of the causes which led to its supremacy before the war ; of the probable effect upon it of the struggle on which we are now engaged ; and of the methods by which Germans may hope in the future to diminish or destroy the supremacy of the City of London.

The claim to impartiality cannot be admitted in its entirety, although the references to the past are on the whole correct. There are inaccuracies of fact and of inference as to events since the outbreak of war which may or may not be due to a lack of information as to war conditions in England, and there are adventures into prophecy—some already proved false by the event—which show that the writer had not always in view an impartial forecast of the

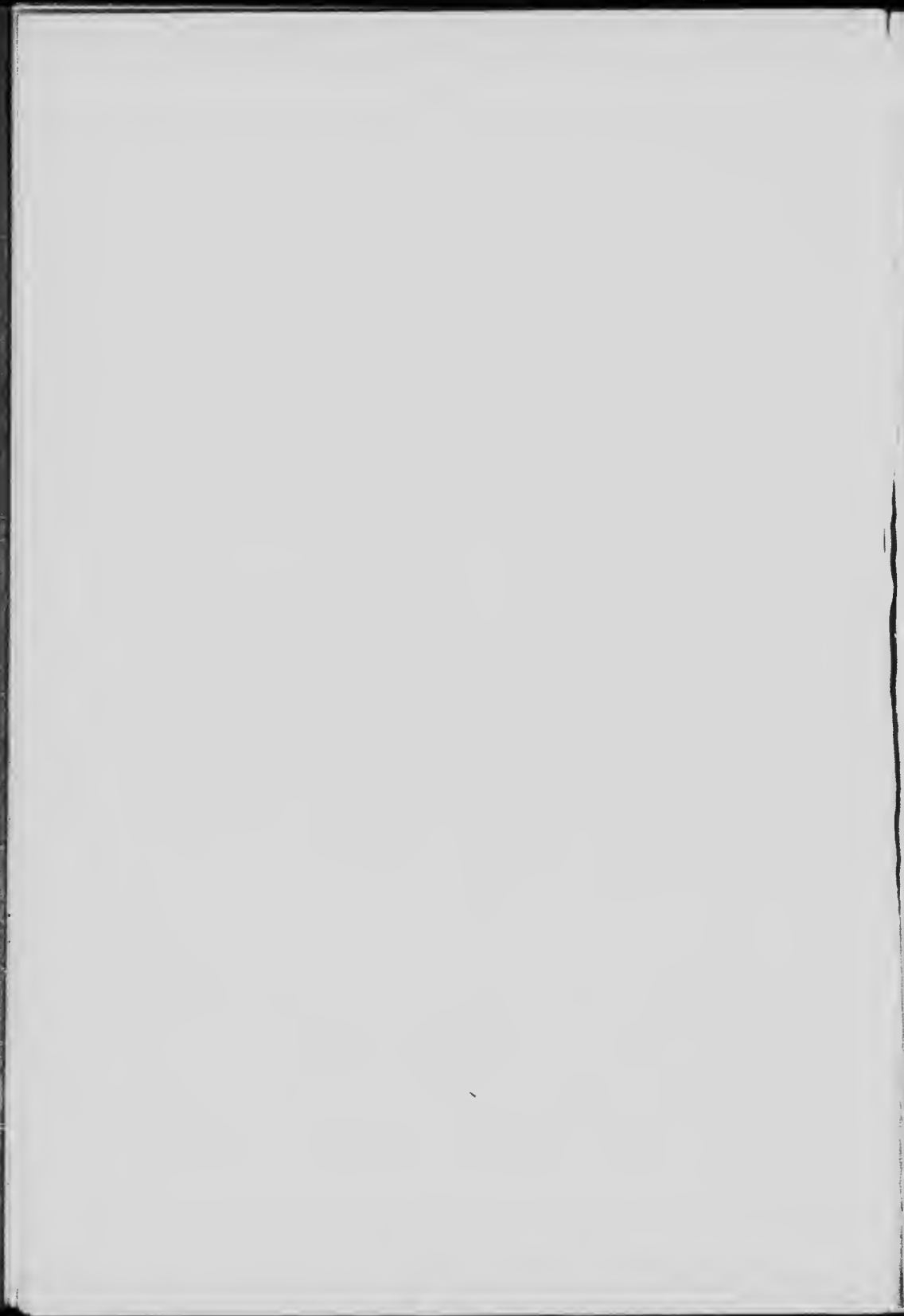
future, so much as a desire to encourage his countrymen or discourage the enemy. On the whole, however, the writer shows a close acquaintance with the London money market, and makes an attempt to present his facts fairly, while his views on the war itself and on after-war conditions are valuable as the opinion of one of the ablest and best informed of German critics.

It is for these reasons that it has been thought useful to make these articles accessible in English. It is lawful to learn from the enemy. It is also imprudent not to be aware of what he says and thinks.

The original intention was to issue the translation without comment. But this method appearing open to misrepresentation, some of the author's inaccuracies are indicated below. No attempt is made to deal with every statement of fact or expression of opinion, and the reader is asked to remember that an absence of comment must not be taken to imply that the text is not open to criticism.

Yet the English reader may learn a good deal from these articles. Some of the dangers to British financial supremacy, to which the writer calls attention, are real, and the advice which he gives to his fellow-countrymen seems well founded. One feature of them is reassuring. We may be certain that their author has done his best to paint the

prospects of England in the blackest possible colours and to give all the consolation and encouragement he can to his German readers. And yet we can see that even in the eyes of this acute German the only real risk to the City of London lies in the possibility on our part of weakness, sloth or prejudice. By foresight, energy and freedom it is possible to meet and overcome all the dangers with which he threatens us. We have still a long start in finance, and it is not to Germany that the war is giving the opportunity to gain on us.



TRANSLATORS' NOTES

IN order to avoid any appearance of interference with the original text the few points chosen for comment, out of the many that might have been dealt with, are inserted here.

P. 36. The issue price of the Anglo-French Loan of September, 1915, was 98. As the bonds were for 5 per cent. and redeemable at par in five years, the net yield, counting in redemption, was 5·5 per cent. Even if we take the price of 96, at which the bonds were taken over by the American banking group, and which covers all expenses of issue, the yield is 5·9 per cent. The writer has adopted the computation of an English newspaper, which calculated that, owing to income tax, a bond on the English market to yield its owner a clear $5\frac{1}{2}$ per cent. would have to yield nominally 7 per cent.—a very different thing.

P. 37. The writer's account of the exchange movements during and after the subscription to the Entente Loan is highly misleading. It is true that the U.S.A. exchange went slightly against us at

the end of October, 1915, but there was a recovery to about 4.70 by the middle of November. By January, 1916, the rate had reached 4.76½, at which it has remained almost stationary up to the present day.

P. 41. The writer gives figures for the exports of British produce only, which is quite unjustifiable if he wishes to arrive at the balance of trade. The excess of imports over total exports is as follows :

£ millions.		£ millions.	
1914 Aug.	13.7	1915 March	37.2
Sept.	13.1	April	31.5
Oct.	15.6	May	27.7
Nov.	25.3	June	33.4
Dec.	35.1	July	31.6
1915 Jan.	32.1	Aug.	29.6
Feb.	32.2	Sept.	30.4

The movement since that date has been as follows :

£ millions.		£ millions.	
1915 Oct.	28.7	1916 April	30.8
Nov.	27.7	May	25.8
Dec.	28.8	June	30.9
1916 Jan.	29.4	July	22.6
Feb.	22.5	Aug.	20.7
March	39.7	Sept.	26.9
		Oct.	28.8

It may be added that exports of British products in August, 1916, were £47,700,000 as compared with £32,400,000 in August, 1915, and £24,200,000 in August, 1914. No figures of German foreign trade have been published since the outbreak of war.

P. 43. The assertion that England has failed to maintain the export of gold is absolutely false. The immense and continuous exports of gold to the United States and to other countries are a sufficient refutation of this charge. Equally false are the accusations that India, Egypt and Belgium have been forced to hand over gold to Great Britain. These charges were first invented by Dr. Helfferich as the best reply he could imagine to the pertinent question as to what had happened to the gold in the State Bank of Austria-Hungary.

P. 45. It was in name alone that Germany avoided a general moratorium, and even this was made possible only by the refusal of gold payments and by granting unlimited credit through the Loan Offices. In addition, it was arranged that any business faced with bankruptcy as the result of the war was not to be sold up, but was to continue business under the control of an officially appointed administrator. The difference between this and a moratorium is one of mechanism alone. It may be pointed out too that the moratorium in this country

was mainly in the interest of foreign debtors and not the result of internal difficulties. Great Britain had a moratorium in name but not in fact ; Germany in fact but not in name.

P. 45. The treatment of alien enemy property in this country has been deliberately misrepresented in Germany. There has been no confiscation of alien enemy property. Only such sequestration has been enforced as is necessary for national safety, and where a business has been sold, the proceeds have been vested in the Public Trustee.

P. 58. The writer admits that his estimate of England's Balance Sheet during the war is 'very rough.' It is also very inaccurate. To take the figures of exports and imports alone the true figures as given in the Board of Trade Returns are £852,000,000 for imports and £484,000,000 for exports. The remaining items in the 'Balance Sheet' are equally misleading.

P. 64. The inference drawn from the figures of capital issues taken from the *Economist* is completely false. These figures represent, not, as the writer suggests, the application of available capital, but the application of capital through the public issue of securities alone. The amount of capital invested at home without the public issue of securities is, of course, immensely larger than that invested abroad.

P. 84. The value of British imports of hides and undressed skins in 1913, less re-exports, was £6,656,000.

In 1913 the value of British imports of rubber and guttapercha, less re-exports, was £6,946,000.

For the same year the value of British imports of raw wool, less exports and re-exports, was £21,263,000.



CHAPTER I

ENGLAND'S FINANCIAL SUPREMACY

"ENGLAND'S predominance on the Money Market is shattered." We often hear that said to-day. And we believe it is true. Even the English themselves are afraid that it may be so. It is, then, a matter of the greatest possible importance to have a clear idea of the nature and extent of this predominance; of its origin; of its significance to England; of the degree to which it is threatened; of the possible heirs to this former monopoly; and, above all, of the share which can and should be claimed by Germany. Such an investigation can only be of value if it is completely free from exaggeration. To underrate one's opponent's strength and to exaggerate one's own, is just as dangerous in the economic war as on the field of battle. We limit ourselves, therefore, to a statement of simple facts.

§ 1. London—The World's Bank, Stock Exchange and Auction Room.

If—before the war—a Brazilian exporter sold coffee to an importer in Havre or Hamburg, he

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received payment by means of a bill drawn on London, accepted by a banker of that city. If an Argentine firm had to deliver skins in New York, the North American purchaser sent a bill on London to his South American business friend. The essential character of London's monopoly is best expressed in such examples. For from them it is clear that the world's trade was financed through London. When, to use a technical expression, 'rembours' credit was wanted, everyone turned to London. But this does not exhaust the exceptional character of London's position. The London Stock Exchange is, not perhaps the greatest, but it is by far the most international in the world. It is possible that in the course of the last ten years the volume of business done in New York may often have been greater. It may even be that increasingly often more business has at times been done in Berlin. But Berlin, and especially New York, were predominantly 'national' markets. Among the thousand odd securities marked every day on the New York official list, there are only some two dozen of foreign origin. Even then it is always a question of some near neighbour such as Canada or Mexico. In comparison with New York even the German bourses are cosmopolitan. Out of the 2,700 to 2,800 securities admitted to the Berlin Bourse almost 500 are foreign. On the Frankfort

Bourse almost a third are foreign. But what is this compared with London? In London the Stock Exchange does not understand the meaning of the term 'admission' of a security, in its continental sense. The distinction there is between the 'official' and 'unofficial' list, of which the latter is incomparably the more important. Only two or three South African Mining shares, for instance, are found in the 'official' list. Least of all, then, in London can the relative importance of home and foreign securities on the Stock Exchange be estimated from the 'official' list. It can only be done by means of the so-called 'tape markings,' or which each separate bargain is shown. Even now in the middle of the war, at a time when business as a whole, and especially business in foreign securities, is almost at a standstill, we can see, on a day chosen at random, that, out of nearly 500 dealings, only 200 were in home securities; another 200 were in colonial, and the remainder in foreign. If a similar investigation were made on German and American Stock Exchanges, it would be found that, of the two dozen foreign securities listed in New York, two or three at most would show more than nominal prices, and in Germany foreign securities are not nearly as important, even in normal times, as their number taken by itself would seem to warrant.

In London it is not the securities alone that are

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international, but the buyers themselves. The members of the Stock Exchange have a *clientèle* from every quarter of the globe. The Continent, North and South America, South Africa, China, Japan and India, all cable their orders daily to London. It is no wonder that the banking quarter in London harbours branches of nearly all the great banking firms in the world, with the exception of the National banks of the U.S.A., which until recently were forbidden by law to possess branches. These branches engage in money market and Stock Exchange business in order to secure at least a share of the profits for their own country. But that does not exhaust their activity. They have also important duties to perform on behalf of their home trade, for London is not only the Stock Exchange, it is also the 'auction market' of the world.

If a German leather manufacturer wants East Indian hides he goes to London, where he finds them stored in great warehouses. In the same way the tea merchant, to some extent the metal dealer, the rubber goods producer, many branches of the textile industry, in short, a very considerable number, and by no means only Germans, of all who purchase raw material are dependent on London. Buyers even come from North America to obtain Central and South American products in Mincing

Lane. And these form only one section of London's customers. Another comes to London to buy non-British manufactured goods—to limit ourselves to these at the moment. Millions of pounds worth of German toys and steel goods, of French silk manufactures, of Bohemian fancy wares are sold there to foreign clients through the agency of English middlemen.

**§ 2. Historical Factors—Navy.—Colonial Empire.
—Purchasing Power.**

London finances trade. London acts as agent for the satisfaction of speculative instincts. London puts up raw material to auction and London sells a great part of the world's finished products. Why London in particular? Why not New York, Paris or Hamburg? There are very many reasons. First we must remember the course of historical development. At a time when, on Manhattan Island, one or two Dutchmen were beginning to found the colony of New Amsterdam, at a time when Berlin was a wretched provincial town, and when communication between Paris and the rest of the world was carried on by primitive waggons and little Seine barges, London was already a great trading centre. In Germany the lack of railways kept international trade within very narrow limits, and brought about such results as that of two towns less than 100 miles

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apart, one would be almost suffocated with a surfeit of corn while the other was suffering from famine. The same lack of land communications was of no account in the case of London and Liverpool. Indeed, it kept off competitors and gave them a lead which could hardly be overtaken. London's financial supremacy, it is true, began considerably later. Until far into the middle of the eighteenth century England was a debtor country and Holland was her banker. The international market was at Amsterdam. It is to the Napoleonic wars that London owes her supremacy. The whole continent was impoverished, and was retarded for generations in its industrial development. Young America was still suffering from the effects of its war of liberation. Political developments and the financial exhaustion of the Napoleonic era had crippled Amsterdam. In this epoch of technical progress the English were able to make full use of inventions in the textile industry, of new processes in the manufacture of iron and steel. This gave them such an advantage that, until far into the second part of the century, England remained *the* land of industry. Its mercantile marine was gradually built up; and political ability, good fortune in war, and the misfortune of others saw to it that any competitors very soon disappeared off the seas. One after the other, the Spanish, the Dutch, the French and even the youthful

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Americans were left behind. In no other field was England's supremacy half so marked as in shipping.

TONNAGE OF THE MERCANTILE MARINE.

	1870.	1891.	Jan. 1913.
British Empire -	7,149,000 ¹	9,280,000	11,879,000
Germany - -	982,000 ¹	1,941,000	3,320,000
Norway - -	1,023,000 ¹	1,489,000	1,719,000
France - -	1,072,000 ¹	1,038,000	1,519,000
Italy - -	1,012,000 ¹	945,000	1,137,000
U.S.A. - -	1,517,000 ¹	3,341,000 ¹	4,800,000

In 1870 the British mercantile marine was far greater than that of the five next largest fleets. Since then its rivals, especially Germany, have made great progress. But even in 1913 the importance of British tonnage was as great as that of Germany, Norway, France, Italy and America combined. How large the profits from transport services must have been, and what tremendous prestige came from this ubiquity of the British flag is clear. Hand in hand with oversea trade, which was at first little more than a piratical adventure, went the foundation of a colonial empire. At first mere objects of trade, the colonies began to acquire political importance, and their political importance in turn became the foundation stone of England's

¹ Gross (other figures net).

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commercial supremacy. Her colonists were Englishmen, who remained, for business purposes, closely bound to their mother country, and preferred to trade with the old home. They knew the market there; it was there that they were financed, and it was there, first of all, that they sold their whole surplus produce. When other countries gradually came forward as customers the colonies wished to be paid, as before, by bills on London.

It is due to circumstances such as these that throughout the British Empire the English bill alone finds currency. But how does it happen that China, Argentina and Brazil, even though they sell to Hamburg or New York, only know the sterling bill? In the first place, during the early part of the century, these non-British countries found their chief market in London. We do not have to go very far back in order to prove this. If we take a period of thirty years and compare the imports of the four most important importing countries at the beginning and end, we find the following (see Table on opposite page).

Only thirty years ago England imported almost as much as France, Germany and America combined. In 1913, the last year of peace, Germany had almost overtaken England as a purchaser on the international market. England had only increased her imports by about 84 per cent., Germany

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IMPORTS (£1,000,000).

	1883.	1893.	1903.	1913.	Increase from 1833 to 1913.
Great Britain -	369	353	482	572	+ 84%
France - -	199	156	177	340	+ 71%
Germany - -	161	198	300	539	+ 234%
U.S.A. - -	148	178	212	373	+ 152%
The four great importing coun- tries together -	872	885	1,170	1,924	+ 120%
Of these :					
Great Britain -	42%	41%	41%	35%	
Germany -	19%	22%	26%	28%	

by not less than 234 per cent. It should be noticed in passing that this comparison does not fully illustrate the whole development of foreign trade in these four countries. Export figures should also be given, and in these England would show up still worse. In the period before the war she had sunk from an easy first to the third place. The above table is only to make clear for how long a time, even after the foundation of the German Empire, England remained the chief buyer in the world market. The table, too, only takes account of imports for home consumption. England, in addition, made large purchases for re-export. In the eighties, for instance, the British re-export trade was between £60 and £70 millions, and the German only £10 to £20 millions.

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§ 3. English Banks and English Companies Abroad. —Cheap Money.—The Debtor as Creditor.

We must refer again to historical causes. When world trade was beginning England was the chief buyer, and at the same time she had to finance her own purchases. Later, when other customers appeared, the foreign merchant was accustomed to being financed by England. Above all, the necessary organisation for the settlement of foreign business had long ago been developed by the English, that is to say, by English banks in foreign countries. By the time that the Germans were able to begin gradually to establish rival banks, the older and much more numerous English institutions had long ago obtained a solid *clientèle* and valuable experience. Another factor was of great help to the English. Each year they had under their control an enormous surplus of capital which could be invested abroad, indeed, which was invested abroad; and this capital went not only to the colonies but also to other young countries. Of course, the fact of having money to lend is not enough. The money must be directed into the right channels and controlled by the lender. If this is not done the creditor is powerless, or, what is worse, becomes the slave of the debtor. A typical example of this is France. That country has lent possibly even more money

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than England, but has gained thereby very little increase in its power. Quite apart from the £1,000,000,000 in Russia, the enormous amount of French capital invested in South America has given France much trouble, and just before the outbreak of the present war had caused a financial crisis. In this matter of investment and control, the English policy has been admirable. Apart from the £500,000,000 invested by England in the United States, the money lent by private persons to non-English countries has remained almost entirely under English control, not only in the colonies but everywhere else. Wherever one cares to look, even in the German colonies, English capital works through English firms. Other countries, such as France and even Germany, very often place their capital at the disposal of England, and retain no share in its management. It is controlled entirely from London, where the headquarters of the company concerned is situated. The advantage of this to the London money market, quite apart from the many orders that come in this way to English industry, is clear. All money not immediately needed goes to London. It eases the market there, increases the liquid assets of the banks, assists speculation, and so forth. In individual cases it may be only a question of a modest amount, but as there are hundreds and perhaps thousands of

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businesses acting in this way, these sums add up to enormous amounts. What is true in the case of the private debtor is still more true in the case of debtor States. Together with France, England has been the great money lender to Governments of every kind. The whole of South America, Central America, China, Japan and naturally the colonies, borrowed money in the City. Now it is a matter of experience that the proceeds of such loans are not immediately withdrawn. They remain for the greater part in the country where the loan has been raised, to pay interest or to meet industrial orders, or else are deposited there until they are needed. There are plenty of examples where the issue of a great foreign loan has meant cheap money in the lending country. This may sound paradoxical, but it is true. It is explained by the fact that idle capital, scattered in different places, rapidly flows together to one point. Even where the debtor state makes use at once of the money raised, it must maintain a balance in London for the payment of interest. The influence of such sums on the development of the money and bill market can be seen even in Germany, where new capital is for the greater part absorbed at home, from the example of the Russian and Chilian deposits. For years at a time the rate of private discount in Germany was regulated by these Russian deposits. In England, in addition to these

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ordinary deposits, there are those of India. According to the Report of the Royal Commission on Indian Currency and Finance, the Secretary of State for India maintains in England deposits of over £15 millions. Of this about half has been lent to London Banks at 2 per cent. and under, although the rate of discount in India at the same time has been between 8 per cent. and 9 per cent.

This is not all. We mentioned at the beginning that England supplies so-called 'rembours' credits (acceptance credits) to all the world, that is to say, it accepts commercial bills on account of foreign business houses. At a first glance it may be thought that, in order to do this, England needs money. On closer investigation it is seen that the opposite is the case. The business man who receives an acceptance credit from a banker must provide cover against it by the day on which it falls due at latest. In reality this is done at an earlier date, frequently very much earlier. The City banker is merely a guarantor. The amount of money that comes to England through this acceptance business must be fabulous. Take one example: in recent years German importers are said, on an average, to have drawn on London to an extent of £112,500,000 a year. The sums needed to meet these acceptances amounted in the busy months to many million pounds sterling. And Germany was only one

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of such customers. In others words, England's debtors are continually lending to that country millions and millions of pounds. The advantage of such loans is due chiefly to the fact that they give employment to funds which, according to the rules of sound banking, should not be tied up in permanent investments. Germany had no need to keep its newly created capital liquid. We were debtors to no one, and were free to convert it at once into permanent investments. And this was always done up to the last penny, as the result of our enormous industrial activity. But in consequence there has been dear money in Germany and cheap money in England.

§ 4. A Model Credit System.—Free Gold Market. —Steady Exchange Rates.

This movement of foreign capital to London from almost every country was not the only reason for cheap money there. Added to it was the excellence of the English credit system, so sharply contrasted with that of Germany. In England, the cheque and clearing system has been admirably developed; Germany, for the greater part, is wretchedly behind-hand. In England for many years past the possession of a cheque book has been taken as the *sine qua non* for a certain social position. In many circles only those who owned a cheque book were considered 'gentlemen'; the less fortunate were merely 'men.'

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This may be a sign of deep-rooted materialism, but economically it has been very useful. There is no doubt that this credit system has played a large part among the forces enumerated in the first chapter in keeping down the London discount rates. In proof of this we give a table of the market rate of discount in Germany and England during the last nineteen years :

MARKET RATES OF DISCOUNT IN ENGLAND AND GERMANY.

Year	Berlin	London	Berlin over London	Year	Berlin	London	Berlin over London
1895	2.01	0.81	-1.20	1905	2.44	2.80	-0.36
1896	3.01	1.52	-1.52	1906	4.94	4.95	-0.01
1897	3.08	1.87	-1.21	1907	5.12	4.53	-0.59
1898	3.55	2.65	-0.90	1908	3.52	2.31	-1.21
1899	4.45	3.29	-1.16	1909	2.47	2.31	-0.16
1900	4.41	3.70	-0.71	1910	3.58	3.14	-0.44
1901	3.06	3.20	-0.14	1911	3.71	2.92	-0.77
1902	2.19	2.99	-0.80	1912	4.22	3.84	-0.38
1903	3.01	3.40	-0.39	1913	4.98	4.38	-0.60
1904	3.13	2.70	-0.43				

Over a period of nineteen years our own market rates have only four times been lower than in England, and three of these were at the time of the severe crisis at the beginning of the century, when low rates were a sign of insecurity and lack of enterprise. During the remaining fifteen years

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English rates were between 0·18 per cent. and 1·52 per cent. lower than ours, the average being about 0·8 per cent. This has been a very considerable factor in favour of England, more considerable than at first sight appears. To the importer, who has always to content himself with very modest profits, it has meant a great deal whether he had to reckon with a London rate of 3 per cent. or a Hamburg rate of 3·8 per cent.—it meant that his discount expenses would be 27 per cent. higher in Hamburg than in London. And this was in addition to the fact that probably his foreign friend preferred a bill on London.

For this preference, in addition to historical reasons, there were two other grounds. These were the free market for gold and the steadiness of sterling rates. Of all great money centres London was reputed to be the only place from which gold could be exported without hindrance. Formerly this was quite true. The Bank of France, for instance, until quite recently, has always demanded a premium on gold in the case of large withdrawals. By law it has the right to pay out unlimited amounts in 5 fr. pieces, since the gold standard is not really operative in France. In Germany we have a gold standard. But unfortunately, in practice, far too much anxiety used to be shown when the gold export point was reached. Until recently it was

considered in banking circles unpatriotic to export gold. It was also feared, whether rightly or wrongly we will not say, that to do so would incur the wrath of the Reichsbank. Before Havenstein's time the Reichsbank did too little towards increasing its stock of gold, and this probably was the reason for such fears. For instance, in the year 1907, it possessed on the average £31,700,000 in gold as compared with the present stock of £125,000,000. In that year the gold reserve—not metal reserve—against notes fell to 26·4 per cent., so that some anxiety was quite comprehensible. But the Bank of England, for her part, by no means kept a large gold reserve. On the contrary, until the outbreak of war, it was much smaller than that of any other large State Bank. During the last ten years, it has averaged about £30 millions. Even the Austro-Hungarian Bank had frequently double this amount, to say nothing of the £150 millions in the Bank of France and in the Russian State Bank. How, then, could England afford a free gold market? First of all, because, as a rule, the Bank had only to part with gold indirectly. The real supply of gold came from the London gold market, which is unique. By far the greatest part of all new gold came to London, for the British Empire is by far the greatest gold producer in the world. South Africa, Canada, India and Australia together supply 60 per cent. of

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the total gold production. On the free gold market of London everyone could satisfy his demand. If exchange rates moved so much against England that gold was actually taken away from the Bank of England, it could allow it to go without misgivings because of its extremely small note circulation, a circulation which, in addition, was almost always completely covered by gold. It was seldom that there were £30 millions of Bank notes out, a most modest amount compared with a French circulation which would often reach eight times as much. Here, too, England's excellent credit system played its part, although certainly even before the war this organisation had begun to prove insufficient in times of economic stress. Twice at least, in the crisis of 1907, the Bank of England was obliged to seek help from her colleagues in Paris, the first instance in which advantage was taken of the *entente cordiale*.

Steady exchange rates, as has already been mentioned, supplied a further reason why preference was given throughout the world to bills on London. As any violent fluctuation could be counteracted at once by the export of gold, the value of an English bill was almost certain to be constant. In addition, the supremacy of the bill on London was ensured by the extraordinarily large number of such bills themselves and by the wide market for them. Especially

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because England had by far the largest foreign trade, there was no other currency system which could produce anything like the same number. This trade supremacy existed not only when German and American industries were still in their childhood ; it remained even up to the outbreak of war. In the year 1913, for instance, England's total foreign trade reached £1,425,000,000 against £1,125,000,000 for Germany and £900,000,000 for the United States.

There is a further question. What are the causes that have made the London Stock Exchange the most cosmopolitan in the world ? Many of them have been referred to already. Trade connections in every direction, a constant surplus of cheap money, the tendency of the Englishman to establish English enterprises in every foreign land, the shares in which naturally find a market on the London Stock Exchange. But such facts alone do not explain the peculiar position of the Stock Exchange. This is due largely to the nature of the English Company Law. According to the German Commercial Code, the lowest limit for the nominal amount of a share is £50. In Germany it is also illegal to issue shares at less than their nominal value. The stamp tax on new shares has already risen to 4½ per cent. In England there are very different rules. There the £1 share is a favourite. Shares can be issued at less than their face value,

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and stamp duties are incomparably lower. These are practices which may have their disadvantages in the eyes of a far-sighted legislator; they may lead to developments injurious to the nation and disastrous to the investing public. But to the Stock Exchange itself they mean that business is simplified and invigorated. The same is true of the attitude of English law towards 'time bargains.' In Germany such business was for a time almost entirely prohibited, and even now the existing laws keep it within very narrow limits.

All that has been said about the Stock Exchange is equally true of a great part of the produce markets. Here, in particular, the fear that speculation would be carried too far or that the agriculturists might be overreached by business men, has combined in Germany with various other factors to make 'time bargains' almost impossible. This has naturally been an advantage to the English produce markets, as, for instance, in the case of copper.

Another institution, perhaps in itself too speculative, has had its share in building up the supremacy of London. This is 'Lloyds.' In Germany, the business of insurance is highly developed, but, in consequence of the strict official control exercised over private insurance companies, its organisation is perhaps somewhat clumsy. In England, on the contrary, 'Lloyds,' more nearly resembling the

Stock Exchange in its organisation, is extraordinarily elastic and adaptable.

§5. England's Balance Sheet.

To all that has been said up to now must be added the fact that trade in goods is only one part, although the most important, of the economic intercourse of nations. The balance of goods is only one item in the total balance of payments. Perhaps in this balance of payments the difference between Great Britain and its rivals has been even more strongly marked than in the balance of trade alone. For this reason it is not uninteresting to try to draw up an imaginary balance sheet.

If England had to live from her export of goods alone, she would long ago have been brought to ruin, as her exports have fallen more and more behind her imports. The difference has increased from between £75 millions to £100 millions in the seventies to between £150 millions and £190 millions in recent years. But England has been in the fortunate position of being able easily to meet this deficit. This she has done as follows. First of all, she possessed many hundred millions pounds' worth of foreign securities and other investments abroad from which she received every year £150 millions in interest. In the second place, according to Sir Robert Giffen, English shipping has earned the mother country

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in recent years a gross return on freights alone of about £150 millions, of which about £50 millions goes in expenses of various kinds, leaving a net total of about £100 millions. A long way behind follow the profits received by the City in commissions, bank charges, insurance premiums, etc. These, English authors estimate for the year preceding the outbreak of war at about £30 millions. Considerable sums are also received as tribute from the colonies. To these belong, in the first place, pensions spent in the mother country and also payments made for colonial officials living in London. This item probably amounts to as much as from £12,500,000 to £15,000,000 per year. In addition, receipts from the sale of old ships, which are by no means unimportant, are not taken fully into account in the Trade Returns. For these must be reckoned about £9 or £10 millions per year. As smaller items may be mentioned in passing, the considerable sums remitted to Ireland by emigrants, and money spent by visitors in England. This, in spite of the English habit of travelling, is greater than the amount spent by Englishmen abroad, owing to the fact that so many colonial and American millionaires live in London, especially during the so-called season, and that so much American money comes over to England through marriage or from permanent change of residence. In this way, for

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instance, a very large part of the Vanderbilt and Astor properties has been transplanted to England. In the table below we have attempted to present these facts in the form of a balance sheet. We have based our estimate on the work of C. K. Hobson (*The Export of English Capital*), of Sir Robert Giffen and of Sir George Paish.

ENGLAND'S BALANCE SHEET.

(Average of years 1909-1912)

(£1,000,000.)

Export of goods - - £470 Shipping (net profit) - - 90 Commissions (insurance, bank fees) - - 23 Tribute from Colonies - 13 Sale of ships - - 7 Interest from foreign in- vestments - - 150 <hr style="width: 100%;"/> <p style="text-align: right; margin: 0;">£753</p>	Import of goods - £825 Surplus - - 128 <hr style="width: 100%;"/> <p style="text-align: right; margin: 0;">753</p>
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It is clear from this balance sheet, that year in, year out, England has secured magnificent surpluses. On the average of the last ten years, her surplus has been over £125 millions; in 1912, according to Mr. Hobson, it even reached £175 millions. It is this enormous sum that has made it possible for England to invest new capital abroad. In comparison with this, how small were the foreign investments of other countries. Germany's export

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of capital, for instance, in the last three years before the war, varied between £16 and £33 millions. England's international balance sheet made by far the best showing in the world.

§6. Germans abroad as Agents of England's Supremacy.

We must speak now of another extremely important factor in London's financial development. And that is the Germans. In every department of that market which, as we have shown, has grown up in London, we see Germans in a leading position. For the moment we will leave aside the broader historical facts, such as the *rôle* played by the old Steel Yard of the Hanseatic League, and confine ourselves entirely to more recent developments. If we look at the great accepting houses, through which such gigantic sums are passed, we find in almost every case that they are not English, but German : Rothschild, for instance, Schroeder, Huth, Frühling, Goschen, Kleinwort and many others. It is naturally to be expected that the German banks in London should be managed by Germans, but less so that the branches of other continental banks, Swiss, Russian and Italian, for instance, should have for the greater part German managers. Indeed, the director of the largest French bank in London is, we believe, a naturalised German!

Perhaps the most important factor in the growth of the English money market was the discovery of the Transvaal goldfields. There, again, we find that the financiers who worked hand in hand with Cecil Rhodes, the politician, were mostly Germans. The partners of the firm of Werner, Beit & Co., the Eeksteins, Albu, Goerz, Neumann, etc., were Germans. It was by Germans also that a great part of the Stock Exchange business was carried on, and it was they especially who understood how to attract foreign customers to the London market. Not only German customers, but French, Russian and American, operated almost exclusively through brokers of German origin, although, among the foreign customers of the London Stock Exchange, Germans perhaps took the first place. The presence of Germans in every field was no accident. It was due to the German capacity for work, to the excellence of German education, to German elasticity and adaptability, which contrasts so sharply with the stiff conservatism of the English character. The result was that German business men were found everywhere far beyond the narrow limits of the money market proper. For instance, although English manufacturers of textile machines supplied practically the whole world with their products—and no wonder, since the English demand for such machinery was the greatest in the world, and the

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manufacture could be carried out on an entirely different scale than any other country—but those who obtained orders for the manufactures of Manchester, Oldham or Accrington, from Spain, South America and even from France, were commission firms founded by Germans. The Englishman refused to make quotations otherwise than in yards and shillings, and to sell otherwise than for cash payment. He avoided, as far as possible, both the trouble of conversion into other currencies and into modern measures, and the risk of granting the customary trade credit.

We have already said that hundreds of small manufacturers in Würtemberg, in Upper Italy and in Lyons hand their products to London firms for export over-seas. But in these cases, too, the middlemen are of German origin. It is not without reason that the Jingo loathes people of this kind, or that for years the *Daily Mail* has run a campaign against these middlemen. For the fact that the hated German has to a large extent assisted in the development of modern England is felt by many Englishmen to be degrading. It may be added that Germans in England have by no means limited themselves to act as agents only for British manufacturers. Modern industries, such as the chemical and electrical, are much under German influence. The expert here in Germany saw how ludicrous it

was for the *Times* to say, as it did recently, that the late founder of the 'A.E.G.' was one of the many German spies who came to England in order to find out as much as possible, and then to copy what he had seen on his return to Germany. Apart from the bad taste shown in this statement, it is exactly contrary to the truth. The only large independent electrical company in England was founded by the former German representatives of Rathenau and by their German relatives, although, since then, these people have changed their name and have become ardent protectionists.

We will now recapitulate. The influence of history, a mighty empire, a cosmopolitan Stock Exchange, intimate business connections throughout the whole world, cheap money, a free gold market, steady exchanges, an almost unlimited market for capital and an excellent credit system, an elastic system of company legislation, a model insurance organisation *and the help of Germans*, these are the factors that have created England's financial supremacy. Perhaps we have omitted one other factor, the errors and omissions of other nations.

In our next chapter we shall see how far these conditions of supremacy are likely to retain their force after the war, and what mistakes, in the future, we ourselves shall have to avoid.

CHAPTER II

ENGLAND'S GREAT ILLUSION

§7. What the English Ministers expected from the War: The Consolidation of England's Financial Supremacy.

ON the 4th August, 1914, a few hours after the declaration of war by England against Germany, one of our leading business men called at the Prussian War Office, bringing with him a plan which he had prepared for assuring the supply of raw materials necessary to the empire. Falkenhayn examined his proposals, approved of them, and within a few hours gave the composer of this memorandum a set of rooms in the War Office, and, what was more important, full powers to act as he chose. So at least says the *Times* in one of its recent issues. Whether it is correct or not we do not venture to say. In its essence it is true enough. And this shows how seriously the authorities in Berlin regarded the situation. From the moment that England became our enemy we reckoned at least

with an attempt to blockade our coasts. We talked rightly of 'great and earnest times.' We knew that in the economic field we should have to strain our efforts to the utmost to preserve from most serious danger the fruits of forty-four years of labour.

What was happening at that same time in London ? While this conversation was going on between the soldier and the business man in Berlin, the President of the Board of Trade sat at his desk and drew up a memorable circular to the Chambers of Commerce. In it he urged his countrymen to make full use of their excellent opportunity. He warned them that an opportunity had come which would never recur of killing that German export trade, which was becoming more and more dangerous to Great Britain. Germany, which up to the middle of the seventies, could show scarcely half as many exports as England, had climbed up nearer and nearer. Until the end of last century England's place was undisputed. Then, in 1901, it was found to fall for a time behind America. This was unpleasant enough for the rulers of the world's markets, but there was always the consolation that the United States owed its success primarily to inexhaustible natural resources, and that this success was based for the greater part on the export of raw material. In other words, the United States was no real com-

petitor. But it was quite another matter with Germany, a country not rich in natural resources, and formerly never taken seriously as a competitor. In earlier times its comparatively small export trade was for the greater part agricultural, and therefore indifferent to England. But now it has become more and more industrial, and so touches England more closely. Even if peace had been preserved, the year 1914 would probably have been memorable in the history of international trade. For Germany, for the first time, would have been ahead of England. This presumption is justified by the statistics for the first half year. The war was to protect England from being forced back into the third place. For the end of England's industrial supremacy in Europe endangered also her financial predominance. The historic moment had come to assure its position. And it would be easier—so it was argued in England—to assure it as a belligerent than as a neutral. For as a combatant it could carry on its economic war against Germany in a very different way; she could cancel patents, could blockade, capture and confiscate. Sir Edward Grey declared that England would suffer little more as a belligerent than as a neutral. Besides, Germany would soon be defeated, for, according to Winston Churchill, it would be starved out as certain as the leaves fall from the trees. Financially, too, the end could not be far

off, because, according to the assurance of the financial authority at that time, David Lloyd George, England had the larger store of 'silver bullets.' As they also said, they all expected from the war the consolidation of England's economic supremacy. All hoped for this, whether at the beginning they were in favour of neutrality or opposed to it.

§8. 'Business as Usual.'—'Silver Bullets.'

The fallacy of these prophecies has been clear to every Englishman for a long time past. This is acknowledged, with that undeniable frankness of the English character, in the whole press from the *Labour Leader* to the *Times*. The assurance that Winston Churchill gave in the late autumn of 1914 that business was normal—'Business as usual'—has become in England a catchword of an unpleasant flavour, and has helped to destroy the reputation of its many-sided author. Those conquests on the world markets, of which the President of the Board of Trade had dreamt, can be judged from the Monthly Trade Returns. According to these British exports in the first year of war were £175 millions lower than for the previous year. The fall would have been greater still had not France and Russia increased their imports by many millions. But these new customers have the ex-

tremely unsatisfactory habit of postponing payment for the goods they purchase. Nor will these new conquests be permanent. Other neutral countries have been able to take advantage of the increase in business caused by the war ; the United States, in particular, has increased its exports by £225,000,000 in nine months, the Argentine and Brazil by £20,000,000 and by £4,250,000 respectively in six months. Who, indeed, can win new markets abroad when at home the Minister of War is raising an army of three million men, and when further millions will soon be asked for to replace casualties, which, judged by English standards, are already so enormous. Even now these casualties have reached nearly half a million, as compared with 38,342 in the Boer war and 12,849 in the Crimea. At the same time, those who are able to escape Lord Kitchener fall into the hands of Lloyd George, who, in his anxiety to secure an adequate supply of munitions, is withdrawing millions of men from the labour market. In England, as elsewhere, peace industries are being turned into war industries, and exports of war material produce no corresponding return.

Even in the matter of 'silver bullets' things do not seem to be working out as they should. A few days after the outbreak of war Lloyd George who is still regarded by many as the saviour of his

country, stated that the war was costing £750,000 a day, and added that in all probability this rate of expenditure would decrease. To-day it is costing much more than £5 millions a day. In other words, the war is eating up about seven times as many 'silver bullets' as was anticipated by the present Minister of Munitions. The man who makes such enormous mistakes in his own accounts is likely to have a still vaguer idea of the financial position of his rival, and we cannot be surprised when Lloyd George says that financially Germany cannot hold out as long as England. This was the real point of his 'silver bullets' speech. In spite of his imitation of German social policy, Lloyd George has the same fatal ignorance of economic conditions in Germany as almost all other Englishmen. According to the English, Germany's growth has been the result of an unhealthy hothouse atmosphere, and has only been possible as the result of heavy borrowings abroad. Even Englishmen who lived and worked in Germany could scarcely get rid of this prejudiced view. The introduction of the Harpener mining shares on the Paris Bourse, an incident in itself of no importance whatever, appears to have been treated with a strangely exaggerated importance even by professional economic writers in England. The reports on Germany which have appeared in the English press have led the public astray rather

than enlightened it. These articles were for the most part written by sensational journalists who did not know the country, or else by very violent anti-Germans, and the result has been harmful to both peoples.

The actual production of 'silver bullets' in the two countries can be seen from the following comparison :

GERMAN WAR LOANS.

1. War Loan 5 per cent. at 97·50.	} Latest price 99½ per cent.
Subscribed £223,000,000.	
2. War Loan 5 per cent. at 98·50.	
Subscribed £453,000,000.	
3. War Loan 5 per cent. at 99·00.	
Subscribed £605,050,000.	

ENGLISH WAR LOANS.

1. War Loan (Lloyd George) :

3½ per cent. Issued at 95, present price 92¾.

Loans from Bank of England up to 100 per cent.
for three years at 1 per cent. under Bank
rate.

Apparently £350,000,000 subscribed, but in
reality over £100,000,000 taken over by the
Banks.

2. War Loan (M'Kenna).

4½ per cent. Issued at 100, present price 98.

Subscribers received conversion right for older Government Loans.

Apparently £600,000,000 subscribed, of which £200,000,000 had to be taken over by the Banks.

3. Dollar Loan (in common with France) :

£100,000,000 5 per cent. 4 year bonds at 100 per cent., repayable or convertible into notes, at option of buyer. Syndicate's price 96 per cent., issue price 98 per cent., latest quotation 97⅞ per cent.

In Germany it has been found possible to issue each loan under more favourable conditions than its predecessor. Savings bank deposits have increased. It has not been necessary artificially to increase subscriptions by calling in the help of the Banks. England has had to make each of her loans more attractive to the public than the one before. She has had to allow her first loan to be converted into one bearing a higher rate of interest. After each issue she has seen a considerable drop in price. Every kind of trick has had to be used, such as that of allowing the war loan to be used as collateral on incredibly favourable terms, of falling back on the help of the

Banks, of promising the right of conversion into future loans, etc. And the result of it all is that England, the classical land of creditors, the banker of the world, has had to borrow for itself 'silver bullets' from abroad.

**§ 9. England on the Hunt for Money in America.—
The Dollar Loan and its Fatal Results.**

The history of the dollar loan in America is fresh in the memory of all. Haughty England sent her most able representatives to New York to beg for a loan of 1,000 million dollars. She declared that if she did not get the money she would have to put a stop to its enormous orders in the States. Just at that time the Americans had been stirred up to a high pitch of indignation against Germany; they believed these quite false statements—or at least they pretended to believe them. But they refused to grant the whole of the English demands, lending instead only 500 million dollars, on most onerous terms (according to English computation 7 per cent.). The deputation agreed to these terms, because, in the words of Mr. Bryce, M.P., they had gone as beggars to Mr. Morgan, and as beggars had to take what they could get. Although the loan was issued with the help of a great advertisement campaign, it was apparently not taken up by the public; although the most powerful bankers in

America were behind it, quotations soon fell to under issue price. A few days later negotiations had to be taken up for a new loan, as the first was obviously quite insufficient, and as it had completely failed in its main purpose of restoring the English and French exchanges to their pre-war level. Sterling remained at 4.68·25 compared with its former level of 4.86 $\frac{2}{3}$, and at 5.88 the franc showed a depreciation of about 14 per cent. Everyone knew that even these extremely unsatisfactory rates were only maintained in the firm belief that a second and still more oppressive loan would be issued. Then, on 22nd October, Mr. Morgan suddenly declared that the Western Powers had decided not to ask for further loans, in other words, that the new negotiations had fallen through, apparently because America had demanded absolutely impossible conditions, and because the public had not even taken up the first loan. In a few hours the effect of this announcement was felt everywhere. Sterling sank to 65, francs showed a depreciation of almost 16 per cent.

From the history of the dollar loan we see that a great number of those circumstances on which, as we have shown in earlier articles, England's financial supremacy is based, have disappeared. Take, first, low money rates. The capitalists of a country which is obliged to borrow at a rate of 6 per

cent., or when income tax is taken into account, of even 7 per cent., will not be likely in the future to purchase foreign securities except on very attractive terms. If these terms are not offered they will prefer to invest on the home market. But this means that English bankers will have to ask very high rates from borrowers in the Argentine, Japan, and elsewhere. We shall see whether these countries will pay 40 per cent. or 50 per cent. more interest for loans than before, or whether they will not get their money at a cheaper rate somewhere else, for instance, in America.

High rates of interest also diminish the attractive power of London as a centre for acceptance credits. We have seen that international trade is generally financed through London because the market rate of discount is lower there than elsewhere. It is, it is true, theoretically possible that the present high rates of interest in London are to a certain extent only an episode, and that, in a comparatively short time after peace, these onerous loans will in part be paid off and in part will show an extraordinary rise in price. The history of state credit affords many such instances, and we need only point to the loan operations of France after the war of 1870. But there is this difference. To-day the amounts issued are immensely larger ; all Europe is oppressed by high interest rates ; and, above all, there are

further enormous sums in the form of floating debt waiting to be converted into long period loans. Yet it is just possible that after a certain period of time English bankers will be able to get rid of these unbearably high money rates. But this will only be if the war ends quickly. Each further month of war makes the hope of recovery less. In contrast, too, to Germany, there is no prospect whatever for England of obtaining a war indemnity. The English Financial Secretary was quite right when he said recently in Parliament: 'I consider it absolutely necessary to repeat that the war expenditure must be borne by the nation almost exclusively out of its own pocket in the form of taxes and loans.' We see how the speeches of English ministers have changed between the autumn of 1915 and the autumn of 1914.

A second grave anxiety in connection with the dollar loan is the exchange outlook. The stability of sterling rates is by no means the least important of those conditions of England's financial supremacy with which we have been dealing. The firm belief that a bill drawn on London will never suffer any considerable depreciation gave the sterling bill a predominant position among the traders of every nation. On this belief was built up the wonderful position of London. And it seemed at first as if this *noli me tangere* would stand the test of a world war.

Up to the beginning of the year 1915 sterling rates remained firm, indeed, immediately after the outbreak of war, they at times showed an appreciative undreamt of in normal periods. The fears of England's debtors—and what neutral was not in debt to England?—that the stream of English money and English orders would cease, and that floating credits would be recalled, forced up the value of the English sovereign, for instance, in New York, from $4.86\frac{2}{3}$ to 7 dollars on one particularly agitated day. At that time the English insisted on their full claims. They demanded from America payment in gold, and they obtained it. In this way was created in Canada a gold reserve of 100 million dollars, which it is true has long since been used up again.

It is not difficult to understand how England was able to keep sterling rates from falling until well into the year 1915. In the first place, it is only in the later period of the war that England has made so many purchases abroad. At the beginning her import figures were considerably lower than in time of peace, as can be seen from the table on the following page.

Up to January imports were lower than in the previous year, although, it is true, from the first day of the war exports were also very considerably below the normal figures. The official figures, too,

ENGLISH FOREIGN TRADE IN THE FIRST
FOURTEEN MONTHS OF WAR.

(£1,000,000.)

	Im-ports.	Increase or Decrease on previous year.	Exports.	Increase or Decrease on previous year.	Excess of Imports	Increase or Decrease on previous year.
1913.						
August -	55·97	—	44·10	—	11·88	—
Sept. -	61·35	—	42·42	—	18·93	—
1914.						
August -	42·36	- 13·61	24·21	- 19·89	18·15	+ 6·27
Sept. -	45·05	- 16·30	26·67	- 15·75	18·38	- 0·55
October -	51·55	- 20·17	28·60	- 18·02	22·96	+ 2·15
Nov. -	55·88	- 12·48	24·00	- 20·15	31·39	+ 7·67
Dec. -	67·53	- 3·55	26·27	- 17·04	41·27	+ 13·49
1915.						
January	67·40	- 0·60	28·24	- 19·55	39·16	+ 18·98
February	65·26	+ 3·21	26·17	- 15·08	39·09	+ 18·30
March -	75·59	+ 8·64	30·17	- 14·34	45·23	+ 22·99
April -	73·67	+ 12·05	32·16	- 7·77	41·54	+ 19·72
May -	71·64	+ 12·54	33·51	- 8·43	38·63	+ 20·97
June -	76·11	+ 17·83	33·23	- 6·63	43·88	+ 24·46
July -	75·54	+ 16·17	34·72	- 6·69	40·82	+ 25·86
August -	69·49	+ 27·15	32·43	+ 8·22	37·06	+ 18·91
Sept. -	70·29	+ 25·23	32·31	+ 6·64	37·98	+ 19·60

do not give the large quantities of goods that have been imported on Government vessels (a long time ago these invisible imports were estimated at £10 millions per month ; to-day they probably reach a much higher figure). Nevertheless, during the

first months of the war England could reckon on a moderately tolerable trade balance, and even when it began to change for the worse, the rich tributes which England received from investments abroad and from shipping, etc., were enough to make ends meet. According to our estimates in the first chapter, England was receiving, before war broke out, as much as £325 millions a year from shipping, colonies, sale of ships, interest, etc., and of this only £150 millions were needed to meet the excess of imports. Even during the war, when shipping has suffered so heavily, when there can be no question of the sale of ships, and when the payment of interest has been in so many cases suspended, there still remains a very considerable part of this enormous surplus. But even this tribute of millions has not sufficed. England is no longer able to balance her account, and the foreign exchanges have gone against her. The depreciation of the pound sterling began late ; but it developed by leaps and bounds until, at the beginning of September, the New York rate on London fell in a few days from 4.66 to 4.55. This, it is true, meant a depreciation of only 7 per cent. against a fall of 16 per cent. for the franc, and a temporary fall of almost the same extent for the mark, not to speak of the depreciation of the rouble. The collapse, too, was mainly due to speculative sales on the part of New York

dealers, and was followed in a few days by a recovery to 4.68.

There is, however, a great difference between the depreciation of sterling and of any other currency. In the first place, England enjoys a far greater choice than any other country of means by which such a fall may be averted. Quite apart from the enormous surplus so often referred to, it can fall back on the shipment of gold or on the sale of foreign securities, a device which has been much used of late. If, in spite of all this, sterling rates continue to fall, it means that for a time at least England's apparently inexhaustible resources have given out, a serious outlook for that country if the war is prolonged. Further adverse exchange rates mean much more to England than to any other country, because—and here we follow the argument of a well-known London authority—the French, Russian, and German currencies are national, while the English is, or was, international. The maintenance of the sterling exchange is the main condition of London's international reputation as the world's accepting house.

Closely connected with the depreciation of sterling rates is the collapse of the English gold market. It lay with England, at a time when there was real need for it, to maintain the free export of gold. It has failed to do so. Only in quite small quantities

and after much hesitation do the banks give up gold for export. As an alternative, England is trying as far as she can to turn over to her allies the task of keeping up an uninterrupted export of gold. But England's visible gold reserves are comparatively small, and she could not have been in a position to allow an unlimited export. In the Bank of England there are about £45 millions in gold (compared with £54,500,000 at the beginning of September, 1915). If we add to this the £28,500,000 which should serve as cover for the £80 millions worth of emergency notes, the whole visible gold reserve stands at £85 millions only. Even this sum, modest as it is for a mighty country like England, would have been much smaller, had not gold been requisitioned from every possible vassal and ally. The Russians, for instance, have already sent £8 millions in 1914, the French later sent £20 millions, Egypt £8 millions, while Belgium was forced to hand over all the gold stored in its bank of issue, and even the Indian Currency Reserve did not escape.

§10. A Damaged Reputation.

In former years the words 'as safe as in the Bank of England' was the strongest possible expression of security. And the security offered by the Bank was taken advantage of in many ways. Particularly careful investors, for instance, even in Germany,

used to keep a certain proportion of their wealth in 2½ per cent. English Consols, and were quite willing to pay almost double the present price. The whole system of English finance possessed a kind of halo in the eyes of the world. It took London a century to build up that reputation. And yet only a few days have been enough to undermine the work of so many years. In saying this, we give very little weight to the moratorium for bills of exchange. It was, it is true, a sign of great weakness that the outbreak of war forced England to take this step, and that the great accepting houses on the first occasion when they were called on to fulfil their guarantees, had to confess to a *non possumus*. The later arrangement, by which these liabilities were handed over to the Bank of England, that is to say, to the State, was without doubt a very clever way of minimising this confession of weakness. Nor do we regard too tragically the temporary rise in the Bank Rate to 10 per cent. at a time when Germany was able to manage on 6 per cent. But it was a much more serious matter when England was obliged to declare a general moratorium, while Germany, threatened on all sides, succeeded in avoiding such a step. More serious still appear to us the measures taken by the English Government against the private property of alien enemies. Confidence in the safety of the Bank of England

and of other English Banks was most bitterly disappointed through these actions. The first measure of the English Government was to put an embargo on the private property of enemy aliens. The fate of German and Austrian property on this occasion may in the future be the fate of French, American or Italian. In other words, the City is very far from that 'neutral' centre for the deposit of securities its trusting clients had believed it to be. This was just as great a blow to England's financial predominance as Zepelins and 'U' boats have proved to its 'splendid isolation.' England, too, for the first time since the reign of Queen Elizabeth, has had to borrow money abroad, and this, also, without any doubt, has been another blow to her reputation. For the moment the sums borrowed are small in comparison with those which England has had to advance to other countries, but as the war continues this relation between debts and credits is certain to alter rapidly and steadily to the disadvantage of England. The latest development in the sterling exchange is an equally serious blemish to the façade of England's supremacy.

§ 11. The Threat to London's Position as the World's Stock Market.

Will the London Stock Exchange recover its former predominance after the conclusion of peace? At

the moment its condition is pitiful enough, and for the first time for forty-seven years it has had to pass its dividend. In view of the fixing of minimum prices, of the absence of continental clients, and of the absence, voluntary only in part, of 2,400 frequenters of the Stock Exchange, this is not surprising. We must examine the question from two points of view.

What in the future will be the amount of business? Will it be national or international? In recent years London had almost lost its place as the busiest stock market in the world. New York as a rule, Berlin on many occasions, could show more dealings than London. But there was no denying the international character of its business. This was due to England's position of company promoter and money lender to the world; to the way in which new capital was issued there; to its Stock Exchange rules, so independent of legislative and Treasury interference; to the international character of its Stock Exchange members, and to the cosmopolitan character of its clients. This last characteristic has certainly been weakened. In the first place, England will have less money to lend abroad. She will, first of all, have to pay off her own foreign debts; her annual surplus will be smaller; in all probability she will and must invest far more capital in agricultural development at home than at any

period since the introduction of free trade. At the same time, it is very probable that the old Manchester School will give way before a more strict system of Stock Exchange legislation, and already English industry is being more sharply controlled after the German model. The Exchequer, too, will scarcely be able to let the Stock Exchange escape in the face of the enormous deficits that are bound to follow the war. Already the deduction of income tax from dividends on English shares has robbed the London Stock Exchange of much of its attraction to foreign speculators. But, apart from all this, there is serious danger that London will lose much of its foreign *clientèle* after the war. Formerly the public has always quickly forgotten its unpleasant experiences on the London Stock Exchange. But it will have a better memory for what has happened during the present war. How many capitalists have to pay the penalty to-day for buying American and other non-English securities on the London stock market and depositing them with London banks, in order to escape taxation at home and from other motives.

Above all, experienced middlemen will be lacking. Very few of the hundreds of German brokers will return, for they, too, have had very unpleasant experiences during the war. They have been bullied, in what we formerly thought was a completely un-English manner, into signing a protest

against their old home. Those who refused were subjected to all kinds of petty annoyances, but even those German-born subjects, who often out of sheer necessity hastened to sign the protest, are to our knowledge prevented not only from visiting the Stock Exchange, but even from frequenting the neighbouring streets.

It is no wonder that many of the best of them have already emigrated to New York. Others would have long since followed their example had they been able to get passports from the British Government. After peace, a good many will probably carry out this plan, and increases in taxation will only strengthen their resolution. This emigration *en masse* of a whole calling has very often changed the centre of gravity of a profession from one country to another.

There is another development which may prove dangerous to London's international position. This is the progress of debtor countries and the repurchase of foreign securities by their countries of origin. This tendency, it is true, is always at work to a certain extent, but normally it takes a generation or more before its effect is felt. In this respect the war will cause a great acceleration. Neutrals have amassed large sums with which they will be able to pay off many of their debts. The United States, for instance, has already paid back some £200

millions to their European creditors and is dreaming, not only of future independence from its English money lenders, but even of playing the part of banker to South America, if not to the world, although the realisation of this dream will certainly not be easy—that is to say, unless the war is very much prolonged. Then certainly the impoverishment of Europe, and especially of England, will make it possible for America to realise the boldest of its hopes.

**§ 12. Undesirable Borrowers.—Loans to the Allies.
—The Consequences.**

A very far-sighted American banker has warned his colleagues—the first time in vain—against the Entente Loan on the ground that so great a credit might very easily drag the Americans, in spite of all their pacific intentions and much against their will, into the war on the side of their debtors. The way in which liberal France has been manacled to reactionary Russia is the best warning. When there is danger in 500 million dollars, what will happen to England, which already has had to lend vastly larger sums to its allies? Russia alone has up to now obtained a credit or a promise for upwards of £450,000,000, and in addition, a banking arrangement under State guarantee is being planned. Besides this, France, Italy, Serbia, Belgium and

Montenegro have borrowed in part very considerable amounts. In these transactions lie serious dangers not only for the present, but still more for the future. During the war itself the burdens they involve are expanding beyond all measure. In addition to her own army of three million men, England, according to a recent statement of the Financial Secretary, Mr. Montagu, is already supporting through its advances to the Allies another three million troops. But much more serious is the outlook for the future. We do not refer to the dangers to civilisation ('Kultur') which result from being tied up for good or ill with Russia, although already the Liberal English press, which never hesitates to protest against abuses at home, seldom ventures to criticise conditions in Russia. We will only speak of the financial aspect. It may happen in England's case, as in the case of France, that it will have to send to Petrograd 'good money after bad,' becoming, in this way, the slave of its own debtor. Even if the optimistic view is taken that Russia may be strong enough to avoid national bankruptcy, it means that the already more sparsely flowing stream of English capital will be diverted from the world market to one special area, a strange contrast to the wise policy followed by England in the past. Already it is being said across the Channel: 'Heaven protect us from our friends!'

§13. The Decline in Foreign Trade.

The mightiest pillar in the fabric of England's earlier financial predominance was its trade balance. Right up to the present day England's foreign trade has remained the greatest in the world, in spite of the fact that in exports it was gradually being overhauled by Germany and America. The reason for this was that England, through her wealth, was still able to buy more than any other nation.

FOREIGN TRADE (IN £1,000,000).
1913.

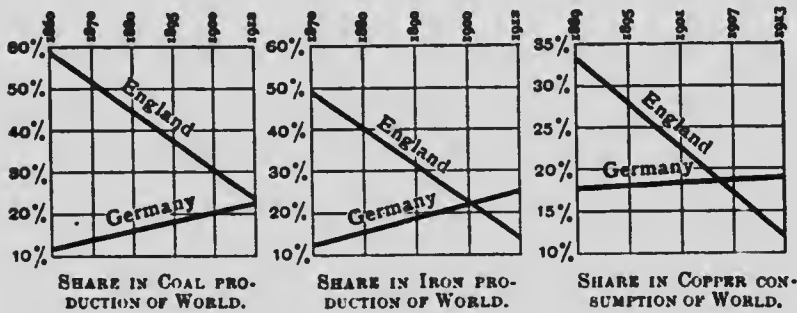
	England.	U.S.A.	Germany.
<i>Less</i> (Exports -	536	510	505
re-exports (Imports -	672	374	538
Totals -	1,208	883	1,043

How long will it take England, after the restoration of peace, to recover her former trade of £1,200 millions? Will she be able to afford the luxury of £650 millions imports? Will she be able to export goods to the value of £525 millions? We doubt it very much. The time for such a luxury is over, and a period of most severe labour must set in if England is to retain only half her power and influence in the world. We shall be able to judge from her

import figures whether England has still the will and energy to carry through this struggle. If imports remain anywhere near their old level it will be a bad sign for that country. It will mean nothing else than the surrender of a great part of the already much reduced surplus from shipping, interest on foreign investments, etc. It seems clear, too, that, from motives of economy alone, England will attempt to develop her own agriculture and so reduce its imports. This reduction will be the more necessary, as in all probability exports will be much smaller. Several of her former most powerful customers have been impoverished through the war, and other countries will be very reticent in their expenditure on luxuries. As far as it is a question of renewing the stock of raw material, which has been everywhere so reduced, England can benefit only as a producer of coal. But the war has done little even for the popularity of English coal. The reduction of output, the exceptional demands of the Navy, the strike and the futile and bureaucratic export prohibitions have reduced coal exports by a third. Old and loyal customers of England have been forced to buy in Germany and America, and many of these will remain true to their new business friends. In so far as there is a demand after the war for industrial products, American and German competition will be very

active. Some years ago England had to surrender her rôle of industrial leader. There is now only one great industry left in which England can claim undisputed supremacy ; that is in cotton spinning and weaving. In one Lancashire town, Oldham, there are more spindles than in the whole German Empire. It is no mere chance that this predominance should have been retained in the cotton industry. For over a hundred years after the introduction of the mechanical weaving loom, after Jacquardt and the construction of the Self Actor and the Throstle, there have been improvements, but no revolutionary invention in the cotton industry. Even the American Northrop loom did not bring anything like the revolution which has been seen in other industries, in the iron and steel industries, for instance, or the electrical or chemical industries. In an industry which went peacefully on along old lines England was able to retain her advantage. In every other, where new methods had to be learnt, where modern technique, with all that it involved, was necessary, England fell behind. The charts we give below show how England has lost her leadership on both the iron and coal market. England's share in the world's coal production sank from 59 per cent. in 1860 to 24 per cent., in the production of raw iron from 49 per cent. to 12½ per cent. At the same time, Germany's share in coal

production rose from $12\frac{1}{2}$ per cent. to 23 per cent., in iron from 11 per cent. to $24\frac{1}{2}$ per cent. England's share in the consumption of copper, a good measure for the development of the electrical industry, sank (according to the statistics of the Frankfurt Metal Co.) from 33 per cent. in 1889 to $11\frac{1}{2}$ per cent. in 1913, while Germany's share rose in these twenty-four years from 17 per cent. to 19 per cent. Only a few



years ago a position of practical monopoly, and now so far behind! This is the penalty of faulty training, the recognition of which is expressed in the demands for an English 'Charlottenburg.'

The home industries, too, have suffered as the result of unrestricted exports of capital, as can be seen in the transference of the point of economic gravity from Manchester to London. There will be an attempt to revive industry, just as there will be an attempt to make the countryside, half of which is now in the hands of a few hundred feudal owners, more productive. But progress is bound

to be slow. However much new capital is brought into play, it will not be possible at one blow to drive out those German competitors who, in recent years, have repeatedly obtained orders from English authorities for docks, gasworks, electrical installations, bridges, etc. All this leads us to the belief that England's imports and exports will be heavily reduced.

§14. The Transformation of England's Balance Sheet.

As we have said, England's foreign trade will probably be much reduced. But the movement of goods forms only one part of international economic relations. What will happen to the other items of England's so-called 'international balance sheet'? They will almost all be smaller.

Let us consider them in order. Before the war, interest from investments abroad, the return on capital invested according to the best business principles, was £125,000,000. Already this return is much reduced. England is being forced all the time to sell out excellent securities in order to pay for imports, and to take over the less satisfactory investments offered by Russia, Italy, France, Serbia, Belgium and Montenegro. In addition, this credit item of interest receivable will in future have a debit item standing against it, in the form of the

interest to be paid on borrowings abroad. The interest received on England's foreign investments, however, is still enormous. Its volume, on the restoration of peace, depends on the length of the war.

Whether English shipping, with the return of normal freight rates, will be able to maintain its net income of almost £125 millions is difficult to say. It must not be forgotten that submarine warfare has already cost the English Mercantile Marine almost 1,000,000 tons of shipping.

The receipts of the City from Stock Exchange and banking commissions and from insurance, will, in the light of what we have said already, and still more of what we have to say later, scarcely recover their proud level of £30 millions. In short, the whole 'Balance Sheet' will be much more modest after the war, and, in particular, the surplus will be much smaller. As a result, we may expect to see the sterling bill lose some of its universality, and therefore of its monopoly. It will have to share the world with others. Already Argentine houses are paying their debts in Europe through New York, although not more than a year ago Argentine payments to New York could only be made with the help of London.

In order to show how completely the war has disturbed the balance of England's economic

ENGLAND'S BALANCE SHEET BEFORE AND
DURING WAR
(in £1,000,000).

	1912.	1915.		1912.	1915.
<i>Receipts.</i>			<i>Expenditure.</i>		
Total exports .	600	450	Total im- ports .	750	930
Shipping ¹ (net profit) . . .	120	90	Import of gold .	5	—
Commissions (in- surance, banks)	30	10	Advances ² to Allies.	—	415
Tribute from Colonies . . .	13	13	Surplus .	191	—
Sale of ships .	8	—			
Interest ² on foreign invest- ments . . .	175	140			
Sale of securities ⁴	—	212			
Export of gold .	—	15			
Deficit . . .	—	415			
	946	1,345		946	1,345

¹ The net profit from shipping is particularly difficult to estimate. If the loss through submarine warfare, etc., is taken into account, there would be no profit at all. Apart from this enormous blow to England's National Wealth, there is, on the one hand, the great reduction in business and the withdrawal of millions of tons of shipping by the Government, on the other the very rapid rise in freight rates. Our estimate is naturally a very rough one.

² England is the great creditor of South America. In many cases the payment of interest has been suspended there, especially in Brazil and several Brazilian and Argentine Federal States. Among the Colonies Canada is suffering from

supremacy, we have made an estimate of the credit and debit account of its relations with the rest of the world. We need not say that the figures for 1915 cannot claim to be even approximately accurate. The object of the table is merely to give a general idea of what has taken place. We have made our estimates as carefully as possible. But we realise the difficulty of reaching any degree of accuracy, and we draw no detailed conclusions from our attempt.

The task of supplying the Allies with 'silver bullets' has been found by England an almost intolerable burden. According to the *Daily Chronicle*, these advances will be something like £900,000,000 by March, 1916. What this must mean to England's balance sheet now and in the future can be judged from the fact that at the best of times England

a period of heavy depression. England has also large investments in belligerent countries, none of which can now pay interest. Finally, there is the loss of interest on those securities which have been resold to America.

³ On 21st September, Mr. M'Kenna stated that advances to the Allies had reached £423 millions. In addition to this are private banking credits—to Russia, for instance. By the 31st March, 1916, these advances to the Allies will have reached, according to English estimates, £900 millions.

⁴ Up to now it has been calculated that only £150 millions securities have been resold to America. By the end of the year, as the result of continually increasing pressure for payment and the more and more enticing profit on the exchange, these sales will rapidly increase.

needed four and a half years to collect so much new capital for foreign investment. Through these loans the character of its balance sheet will be changed for many years to come.

§ 15. The length of the War.—The difference between German and English Expenditure.

We have seen already that many factors of England's financial supremacy have disappeared. England's unique position is without doubt in serious danger. But can we yet speak of the final collapse of the City? No, not yet! The permanent harm to the London market could only be calculated by one who knew how long the war would last. From the financial and economic standpoint, none of the great belligerents have so great an interest in the speediest possible conclusion of peace as England. The expression, 'the impoverishment of Europe,' applies to England more strongly than to any other country. This view is not based on the actual cost of war alone, although this is far greater in England than elsewhere. At a time when Herr Helfferich estimated the daily expenditure of Germany at £3½ millions, in England Mr. M'Kenna had already to confess to a daily expenditure of £5 millions. But the cost of the war is not the same thing as loss to national wealth; all that it means, in the first instance, is the actual burden to the

Exchequer. A very considerable percentage of war expenditure flows back into the hands of certain sections of the community, and through them to the country as a whole. The figures presented by the Finance Minister are those of gross expenditure alone, but the important thing for a country is the net expenditure, the money which has been spent and will never be seen again. An English writer has recently pointed out that, when, for instance, an order is given for £100,000 worth of shells to the Bethlehen Steel Works, it means, at the moment when these shells have been shot away, the dead loss of £100,000 of national wealth. If Krupp's receive an order from the Prussian Minister of War, only part of this can be considered as lost to Germany. That part of the cost which has gone in profits, wages, etc., remains in the country. One of the most important legislative tasks before us is to see, too, that as large a proportion as possible of such profits are requisitioned for the good of the country as a whole, but that is a question which cannot be discussed here. The difference between Germany and England, the two most important belligerents, each of whom began the war with very nearly the same reserve of national wealth, is that Germany—*cum grano salis*—provides what it needs for the war within its own boundaries, while England, in continually increasing measure and at steadily rising

prices, is buying these necessaries abroad. The excess of imports over exports in the English trade balance has increased by more than £250,000,000 since the war began. In addition, goods imported on Government account since the beginning of the war do not appear in the official trade returns, and as these imports can be estimated at about £10 millions a month, we may expect to see by the end of this year that the adverse trade balance has grown by about £400,000,000, while an even greater sum will have been lent by England to her Allies. Our conclusions are confirmed to some extent by the history of England's financial relations with the United States during the war. Since August, 1914, the latter country has received from Great Britain nearly £150,000,000 in gold and securities, and has been forced in addition to grant credits of several millions. In normal times, England makes new investments abroad to the extent of over £150,000,000 a year; at present, the issue of foreign loans in England is forbidden. It should be remembered, too, that the United States is by no means the only country from which England is importing.

Already England's monthly war expenditure at £150,000,000 is almost £50,000,000 greater than that of Germany. But, as we have pointed out above, the real difference in cost to the two countries is greater still. It is perhaps hardly an

exaggeration to say that every £50,000,000 of pure war expenditure in Germany is equal to £100,000,000 in England. But as the two countries were equally rich before the war—according to Helfferich, the German national wealth was some 20 per cent. or 25 per cent. greater than that of England—the English national wealth must be decreasing twice as rapidly as that of Germany, and the results of this will become clearer with every further month of war. The difference in the true economic effect upon the two countries is not fully brought out even by a comparison in the relative loss of national wealth. We must understand the great difference between the reserves that are being consumed in the two countries. England has invested a very large proportion of her wealth abroad, Germany a very small proportion. In Germany, since 1895, some 95 per cent. of the available capital has been invested in home industry and, in particular, in agriculture. In England, on the other hand, as much as 87 per cent. has been sent abroad, as can be seen from the table on p. 64 of capital issues in the two countries.

Both countries to-day are consuming their capital to an unheard-of extent, and as is to be expected from what has just been said, England has fallen back for the most part on foreign investments, Germany on home reserves. The foreign reserve

CAPITAL ISSUES.

ENGLAND

(according to the *Economist*)

in £1,000,000.

	1910.	1911.	1912.	1913.
Total	267	197	211	197
For colonies and foreign countries	207	166	167	161
Per cent.	77 ^o / _o	87 ^o / _o	79 ^o / _o	80 ^o / _o

GERMANY

(according to the *Frankfurter Zeitung*)

in £1,000,000.

	1910.	1911.	1912.	1913.
Total	131	127	130	125
For foreign countries	21	36	17	33
Per cent.	15 ^o / _o	28 ^o / _o	11 ^o / _o	27 ^o / _o

is incomparably more easy to realise than the home reserve. For the one consists of securities which can be sold to neutrals; the other, for the greater part, of fixed capital, houses, factories, goods, etc., of which only the last can be easily realised. In Germany we have even fallen back on so-called 'dead capital' (old metal, etc.), which has ceased to serve any productive purpose. This difference between the two countries forces us to adopt the most strict economy, and to rely entirely on our own

strength. In England it leads to extravagance and to an exaggeration of the power of 'silver bullets.' These are truths which England is only just beginning to realise. Now it makes a very great difference, especially to the future, whether one lives on the realisation of investment abroad, like England, or on one's own internal resources, as Germany is obliged to do. The German method will make a complete re-stocking of our empty warehouses sooner or later an absolute necessity, and will lead to an unparalleled outburst of national energy. The English method is not likely to have any such result, since the loss to national wealth is not so clearly emphasised.

For another reason the length of the war is of decisive importance to England's future. England is waging war with the immense stores of munitions purchased abroad, so immense that she cannot pay for them at the moment. In consequence, she is piling up heavy debts to foreign countries. In the earlier months of the war this was not necessary. It was possible to pay for munitions by selling securities and by sending gold. But both these methods are very limited. Part of the large stock of securities that remains is unsaleable, and there would certainly be strong protests against sending away too great quantities of gold even if there was enough gold to send. Up to October 21st, 1915, it was

hoped that, throughout the whole duration of the war, it would be possible to issue one foreign loan after the other, and scarcely had the Entente loan of £100 millions been taken up in the United States than we heard of further negotiations for further loans of £50 millions each for England and France. This was to be expected since, to judge by the figures of England's foreign trade, £50 millions would only last for a few weeks. It was feared that the United States would demand onerous terms for the new loan, and that was unpleasant enough. But to crown all came the news that these negotiations had collapsed. Such events justify us in saying that *if the war does not end in a few months the most important conditions of England's supremacy will have disappeared*. If England does not take care to end the war quickly, her international position is lost for ever.

Let us sum up. England's reputation for honest business dealing and for trustworthy administration has suffered. Her insular inviolability has been put in question. The ravages of war have undermined the achievements of many generations. Her free gold market has broken down. The flow of capital towards London will fall off, for those who cannot borrow there will no longer send deposits. The surplus shown in her balance sheet will contract. Foreign trade will also decrease. Hand in hand with

this fall, free trade, that mighty agent in the development of England's supremacy, will, in all probability, give place to protection. Stock Exchange business will grow less. Rates of interest will be permanently higher.

Even a speedy peace will not restore to London her full monopoly. Into whose hands, then, will the inheritance fall? Without doubt, Germany can expect to secure a large share. We must at once stake out our claims. How they may be made good, we shall see in the final chapter of our survey.

CHAPTER III

GERMANY AND THE INHERITANCE OF THE CITY

§ 16. Our Own Mistakes.

In one Cabinet meeting of a few hours' duration English statesmen have achieved more than England's most dangerous rivals could have hoped to do with years of effort. England's participation in the war has undermined her century-old financial supremacy at many points. So well was this monopoly built up, that a successful blow could only come from England herself. Surely the English cannot now complain if other leading nations carry on the work begun by Sir Edward Grey and Mr. Churchill. But in this work it is Germany alone which will be able to destroy one of the most powerful elements of British strength, that is to say, the superfluity of Germany's own errors and omissions. Is it still necessary that year in, year out, German merchants should travel to London in order to buy there millions of pounds' worth of non-English goods? Must the German credit system remain as antiquated as it now is? Must millions and millions

of German capital continue to seek a more or less good investment on the London Stock Exchange? Must the securities purchased in London remain deposited there? Must all operations in 'futures,' so necessary for the security of our trade, continue to be conducted abroad? Must thousands of enterprising Germans continue to go abroad in order to find a field for their abilities? We will examine all these points.

§ 17. Our System of Payment.

Again and again we have found in the low rates of interest ruling in London an attractive power of the greatest value. Governments and men of business on the search for cheap money found it in London. The exporter could discount his bills there more profitably, and Stock Exchange business was carried out there under more advantageous conditions. An important reason for these low rates of interest was the credit system that had been so excellently developed in England. In this respect the far-famed German talent for organisation almost completely failed. It should be the object of every economic system to reduce to the lowest possible extent the circulation both of metal and of notes, and to arrange the payment of debts as far as possible by book entries. How much metallic currency we and other nations carried

about in our pockets before the war is not known. But we know at least the amount of bank notes in circulation. In Germany, at the end of the last four years of peace, there were on the average £117,950,000 notes outstanding, against £29,150,000 in England! And yet it is well known that very often a high note circulation makes it necessary to raise the rate of discount.

What is the cause of this difference between England and Germany? The various means by which the circulation of coin and notes can be economised are postal orders, postal cheques, bank cheques, 'giro' transfers, and a clearing system. Of these the most primitive and clumsy is the postal order. Even compared with the sending of legal tender through the post, a practice which till lately could be still observed in many parts of Germany, the saving is very small, since every order must be paid in and paid out in cash. And nevertheless, until seven years ago, the postal order was the most widely used method of payment among the middle classes, £650,000,000 being transferred in this way in the course of a year. Not till the spring of 1909, a quarter of a century after its introduction into Austria, was the postal cheque adopted, even then official regulations, through various formal rules and penalties, taking good care to prevent any too active a development. Even

to-day this valuable system is very far from the success it should be. Instead of 100,000 depositors as at present, there should be at least 800,000. Even to-day, unfortunately, almost half our transactions are settled in cash.

The cheque *par excellence*—the bankers' cheque, constitutes a chapter in itself. In other modern capitalistic countries, especially in England and America, the cheque has become the real means of payment far beyond purely mercantile transactions. For years past the housewife has paid her tradesmen by cheque, and for even longer no private individual has thought of paying the subscription to his club in cash. And yet in Germany, only a few years ago, large business firms were unwilling to accept cheques on account of the legal uncertainties involved. When the monetary crisis of 1907 made it clear to the most short-sighted that an improvement in our methods of payment had become absolutely necessary, cheque legislation was carried through, and an active propaganda was instituted on behalf of the cheque. Business circles and the press competed with each other in the campaign, and its success was extraordinarily great. The habit of keeping a cheque account spread even into the ranks of second class officials and of clerks, and yet scarcely had this tender but promising plant appeared above ground, when a clumsy, amateurish

piece of legislation introduced the cheque stamp. It was asserted that England, with its proverbial cheque system, had a penny stamp duty, and bore it without a murmur. This comparison was quite deceptive. It was folly to make unpopular by taxation an institution which had just been popularised with so much difficulty. As might have been foreseen, the use of the cheque in Germany sank to a minimum. Including the receipt tax, the product of the cheque stamp was £181,650 in the year 1910; in the year 1913 only £154,740. In other words, there was less than one cheque per year for every two inhabitants of the German Empire! When, gradually, in spite of all semi-official attempts to disguise the matter (the memorandum of the Reichsbank, for instance, dealing with its clearing business), everyone realised that the meagre income from the stamp duty bore no relation to the heavy economic disadvantages resulting therefrom, the Government promised, at the time of the reorganisation of the Imperial finances in 1913, to abolish the stamp duty. But from the final form of the new law, it was clear that the Reichstag had quietly put off until 1917 the abolition of the duty, and with that this so urgently needed improvement in our credit system. Unfortunately, the Directorate of the Reichsbank, which usually is so fortunate in its activities, is partly responsible for

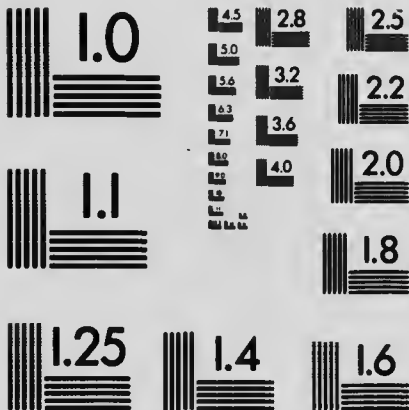
this result. For many reasons the Reichsbank was not unfavourable to the cheque stamp, even if it had not been responsible for it.

The few supporters of the cheque stamp inside and outside the Reichsbank have two arguments in its defence. The introduction of the cheque, they say, has in many cases completely failed in its object, since the cheque is often handed in at once to be cashed at the bank on which it is drawn. Cheques, too, it is added, are drawn for such small amounts as to become a real nuisance to the banker. All this is true. But these are quite natural ailments of infancy. The better known the cheque becomes, the wider the circles in which it is used, the more seldom will it be handed in direct to be cashed. Besides, nothing would be easier to counteract than the cashing of such cheques. It could be arranged that the cashed cheque should pay a duty, while the cheque handed in to the credit of the payee should be free from tax. Even to-day, it is not too late for such a law. We ought not to wait till the end of 1916 in order to get rid of the tax. The second argument against the cheque is that the 'giro' transfer system of the Reichsbank is a still more highly developed method of payment, and that the transfer method practised between private banks stands on the same level. This is doubtless true. The 'giro' transfer system of the Reichsbank, as



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completed by its clearing system, is an institution without which we now simply could not exist. It is so well developed that not more than one-tenth of the enormous amounts transferred is paid in cash. But the Reichsbank has not been able, and apparently does not wish, to extend the 'giro' transfer system very far beyond the present narrow plutocratic circle of its clients. Their number varied in the last years of peace between 24,000 and 26,000, and among these are thousands of public authorities. This modest figure shows that our payments ought to be made, not by cheque *or* 'giro' transfer, but by cheque *and* 'giro' transfer *and* postal cheque. Even to-day those in whose hands our credit system rests are hostile to the cheque instead of promoting its use. The banks put difficulties in the way of the postal cheque, and the Reichsbank looks on the cheque itself with mixed feelings.

This is not the end of our mistakes. The arrangements for the payment of mortgage interest are particularly bad. And this is a matter of some £50,000,000 a year. Attempts to bring about improvements have failed up to now for the reason, among others, that in many places solicitors have long been entrusted with the collection of mortgage interest, and oppose any change in order not to lose their commissions. But to crown all, mortgage interest payments fall at the end of each quarter, a

period which, in any case, puts a dangerous enough strain on the money market, and often brings with it a rise in the discount rate. This accumulation of important payments on a few days in the year is a serious fault and, strangely enough, the payment of war loan interest has also been arranged for the quarter days. Thorough reforms in this matter are as necessary as they would be easy to introduce.

§18. The Patronage of the London Stock Exchange by German Customers.

London's financial power is built up, among other things, on its international stock exchange, and this international stock exchange was produced by the cosmopolitan character of its clients. Among these foreign clients the Germans, we believe, have taken the first place. There were on the London Stock Exchange important markets, in mining shares, for example, which for years at a time lived almost entirely on German orders. Millions of German money have been invested in mines. Quite apart from the large commissions which have come to London in this way, a large part of the capital so invested has been lost, and an equally large part has gone into companies under British management. It would be hard to find an expert who would seriously assert that the profits of German speculators on the London market go half way towards

covering their losses. It is inconceivable what rubbish Germans have bought there, and many a financial editor can tell strange tales of these speculations. There is simply no security in the London official or unofficial list as to which he has not been questioned at one time or another by anxious holders. Nor is it surprising that for the most part these investments consist of costly *non valeurs*. There are people who treat this matter very lightly. 'It serves them right,' they say. 'Why speculate? They have been warned often enough. Well, well! We must warn them more often in future and teach them to get out of the habit of speculating.' All this is very little to the point. In the first place, it is impossible to root out this vice of speculation, least of all among the Germanic peoples. There are certain evils which have to be reckoned with and regulated. Again, the best written warning has little weight against the wiles of a clever agent armed with the almost overpowering persuasive force of prospects of fat returns. We know, too, from the time of the gold share boom that these London promoters send the agents of their ephemeral promotions into the most remote villages of the Black Forest, where no financial critic can follow them. But continual repetition of such cases not only ruins the possessor of such questionable securities, it seriously affects Germany's economic

life as a whole, and for that reason we ought to invent some way by which speculation might be directed into channels useful to our own development. We do not wish to be misunderstood. All that is possible should be done to prevent any excess of stock exchange speculation, and the Reichsbank, the financial authorities, the Stock Exchange, and the press must do their duty as before. Indeed, they must do more, for our great and ever-growing joint-stock banks will have to give far more weight in the future to national interests as compared with their own. The notorious sins of many deposit banks must not be repeated. We must see the end of the practice of letting Tom, Dick and Harry buy on narrow margins and then cutting them off ruthlessly on the first sign of an approaching storm.

Nothing but harm can be done by the prohibition of time dealings and similar practices. By this, speculation is only driven away from our own exchanges, where it *can* be controlled, to foreign exchanges, where it *cannot*. Even those originally in favour of such legislation now admit this. Business in securities must be kept as far as possible on the German exchanges. If Germany is to play a greater part than before in the development of the world; if pioneer work is to be done in Turkey and China; if anything is to be achieved in our future colonial

empire, more than one company will have to be founded which for some years will only be able to offer hopes instead of dividends. Shares in such undertakings will naturally be very speculative; they will be subject to violent fluctuations in price; and will be as likely to bring heavy losses as great profits. But it would be foolish to exclude from our stock exchanges securities which give such full play to the imagination. It is through the help of companies of this kind that so much was done towards the building up of the British Colonial Empire. We will mention only the 'Chartered Company' founded by Cecil Rhodes. In this way the passion of the public for speculation, which, whether we like it or not, exists and cannot be exterminated, may be directed into better channels. Of course we shall have to warn the weak away from such undertakings, even more than before. Strict legislation, the careful examination to which every new flotation is officially subjected, a financial press, more expert and more independent than in any other great country, will protect us from many of the unfortunate incidents which have been so common in London and New York.

Such an extension of stock exchange activity will raise many problems. There is the question, for instance, as to whether shares should be issued below the value of £50. In the past we have

recommended the issue of £10 and £5 shares for colonial companies and for companies carrying on their business abroad. Later developments have strengthened us in this opinion. Our stamp duties, too, must be thoroughly overhauled. Under German law, foreign securities, bought by a German purchaser, must at once be stamped and pay a tax of 1% to 3%. The result is that almost all such securities are kept abroad unstamped. Through this rule, the use of London as a depository for German securities has been greatly promoted, and we are now feeling the disadvantages of this in various ways. The possessor of American securities deposited in London is deprived for the whole period of the war both of the interest on his holdings and of the power of dealing with them as he may wish. If certain English Hotspurs had their way and the Government adopted a recent proposal of the *Times*, it might help itself out of its increasing difficulties by selling these securities and replacing them by war loan stock. We certainly do not believe that any English Minister would be so short-sighted as to take a step which would absolutely ruin London's reputation. But even the reproduction of such a suggestion by a serious journal shows how far things have already gone.

In order to remedy such difficulties, a proposal has been made, in a memorandum written by a

well-known German banker, to alter § 11 of the Imperial Stamp Law so that in future the purchaser of a foreign security should be obliged only to have it stamped if he resells it in Germany or uses it as collateral. According to his opinion, it is advisable not to put a German stamp on foreign securities in order to prevent their German origin from becoming known, if they have to be resold in time of war. This proposal deserves careful consideration.

**§ 19. The Abolition of the English Middleman.—
Tasks for the German Manufacturer and
German Banks.**

At the outbreak of war Germany had long surpassed England as an industrial country, and German exports were on the point of overtaking English.

Nevertheless, up to the last, German manufacturers were in three ways dependent on London. The financing of German foreign trade was done to a very great extent through English bankers; a very large part of the purchase of over-sea raw materials took place in London, and contracts were covered on the English markets. The contributions paid by Germany in this way, year in, year out, mounted up without doubt to a sum very nearly equal to the whole of England's naval expenditure.

Since the outbreak of war much has been written

about English acceptance credits on German account, and of the absolute necessity that these should be replaced by German acceptances. We, too, must discuss this difficult question. Important as it is, however, we believe that from the point of view of money alone, the immediate profit gained by England from her activities as middleman was much larger. If we take the bills drawn by Germans on London banks in the course of a year as £125,000,000, the profit for these banks, even if we reckon a commission of $\frac{1}{4}$ per cent. (which is very high), is £300,000. And this was by no means net profit to the City, for the banks themselves have various charges to meet and have occasional losses to make good on their guarantees, while, in addition, a considerable number of the bills on London are drawn on branches of German banks established there, in which case the profit goes back to Germany. The disadvantage of the English acceptance was more indirect.

Incomparably greater were, in our opinion, the profits made by England out of her re-export trade. Scarcely any country in the world, probably not even Belgium or Holland, has so large a re-export traffic. The following table gives some idea of its extent, but in reality, however, it is far greater, as the English trade figures are, on this point, by no means complete.

ENGLAND'S RE-EXPORT TRADE.

(In £1,000,000.)

1890.	1900.	1904.	1906.	1908.	1910.	1912.	1913.
57	64	71	87	81	106	114	112

This re-export trade has risen rapidly in recent years to £112,500,000. It comprises goods of every kind, coming not only from the Colonies, but also from foreign countries. Goods arrived in the great English harbours, more especially in London, destined, not for English, but for Continental and often even for American consumption. It is impossible to think of anything which was not stocked in the enormous warehouses of London. From such goods as wool and skins down to ivory tusks and quicksilver, everything was to be found there, and buyers from all over the world were ceaselessly engaged in examining these wares in order to get an idea of the value of what was for sale. Some days later would follow the sales themselves, at the great auctions in Mincing Lane. At these, however, the purchaser from abroad could not bid himself; that was against the law. Only firms registered in England had a right to take part. A great army of commission brokers lived on these commissions—they were very high; officially the charge for the majority was 2 per cent. As a rule,

it is true, part of the commission was refunded (certain very large German firms also kept permanent representatives in London under other names in order to keep down such expenses). But the commissions were only one item in the bill. There was, in addition, a considerable charge for the trans-shipment of goods, for carriage to a Continental harbour, for insurance, etc., charges which would not have been incurred if the goods had been sent in the first place instead of to London, to Rotterdam or Hamburg. Finally, we have also to take into account that, in this way, thousands of German merchants and manufacturers have had to interrupt their chief activities and sacrifice much time and money six or seven times a year for a week at a time in travelling to and from London, inspecting goods and so forth.

Through the intervention of London, many goods were raised in price by as much as $3\frac{1}{2}$ per cent., and it is quite certain that England made incomparably more profit out of this re-export trade than from the acceptance business which is now the subject of so many attacks in Germany. At the same time, it appears to us almost easier, in spite of great difficulties, to get rid of London in this respect than in the case of acceptance credits.

It would be possible to defend the position of London as the great centre for raw materials, if

the goods put up for sale there were destined mainly for English consumption, and if only small amounts went to the Continent. In that case the buyer who went to England would, in spite of heavy expenses, do better than on his own narrower home market, because he would have a far greater choice at the chief centre of demand. Formerly, when England was *the* land of industry, this may have been the case. Even to-day there are certain wares of which this holds good—we will only mention tea, of which England consumes some thirty times as much as Germany. For almost all other goods, however, which up to the last we have for the greater part bought in London, the English demand has long since been caught up by German. For instance, after deducting an important re-export, Germany, in the year 1913—quite apart from its own considerable home supplies—imported skins and hides to the amount of £23,050,000—England only to the amount of £3,850,000. If the plan for an economical *rapprochement* between ourselves and other neighbouring states is actually carried through, our position in this respect becomes still stronger. Belgium, for instance—according to its own statistics which have to be treated with caution—purchased £3,450,000 worth of hides and skins; Austria-Hungary £1,300,000. Rubber and guttapercha were imported by Germany to the value of £5,750,000;

by England to the value of £5,800,000. Even in wool, Germany with an import of £18,500,000, had, before the war, a greater demand than England, the classic land of the textile industries, with £15,700,000.

To the layman, it is simply impossible to understand why Germany has gone on purchasing all these goods in London instead of opening markets of its own. The expert will be able to bring forward thousands of reasons; the power of historical precedent; the fact that many of these goods came from English colonies; the strength of the great English importing houses; the intimate relations that exist between foreign exporters and the London market; good shipping connections; and, above all, the advances made on these goods by English banks. In the face of all these difficulties many experts will perhaps advocate submission to existing conditions, but that would be much to be regretted. Without doubt, the difficulties are great, but if all interested parties were to cooperate, these difficulties could, in many cases, be overcome. Indeed, during the last ten years, independence of London has been achieved on many markets. We will only mention the metal trade, for which much has been done already, although to the last it has in many ways remained dependent on London, as, for instance, in the fixing of the London price for zinc

prices, and in the predominant position of the England 'Warrant.'

Even in the face of such great difficulties, energy and business capacity can achieve much, as is shown by the history of the Bremen cotton trade. There were scarcely any of the great products of the world for which dependence on England was so natural as in the case of cotton. England herself is still by far the greatest consumer of cotton in Europe. Raw material comes in part from her own colonies, India and Egypt. Liverpool has long possessed a well-organised cotton exchange with very powerful members, and has, in addition, an excellent harbour equipped with magnificent cotton warehouses. Germany, on the other hand, has never played a very important part in the cotton industry, and, in consequence, was quite dependent on Liverpool and New York. In other ways, too, conditions were favourable to England. Nevertheless, through the service of Bremen merchants, and above all, through the wise support of far-sighted manufacturers, who did not give up when 'experts proved to them the folly of their plan,' it was found possible to create a cotton exchange in Bremen. It is true that, until recently, in spite of its name, the exchange did not allow dealing in 'futures.' But it served at least as a centre for the German cotton supplies, and, above all, it has done excellent service as a

court of arbitration for disputes in the cotton industry. In addition—and this fact deserves special emphasis—Bremen has taken over a share in supplying cotton to Russian Poland and Austria-Hungary. We believe that the example of Bremen, particularly because the situation there was so very unfavourable, should serve as a model for the emulation of all.

The pre-requisites of success are, first, strength of purpose; and next, real *men*, who will not be frightened by difficulties, and above all by unavoidable failures at the beginning. In addition, all individual interests, which are so prominent in these matters, must be restrained, and, if they are not, must be ruthlessly exposed. But the most important and the most difficult task of all falls to the bankers. This is a work in which the great banks can most usefully apply their powerful capital, for only with the help of a very great supply of capital and a well-developed credit system, can a new German money market be created able to grant advances of many millions to exporters to foreign countries. It scarcely need be said that the banks themselves would obtain considerable and lasting advantages from their support of such activities. It is now the task of our importers and manufacturers to head this movement.

§ 20. The Market in 'Futures.'

Until recently, the Bremen cotton firms themselves were in one point completely dependent on the Liverpool and New York Exchanges. When they wished, as was absolutely necessary, to cover themselves on their purchases, they had to fall back on English or American firms, paying them a large commission, as dealings in 'futures' were forbidden in Bremen. As it is still maintained in many circles that such operations on the produce markets have no justification whatever, and only serve the ends of a dangerous form of speculation, we will give a short explanation of their character and purpose.

The importer of, say, cotton obtains an offer of 500 bales from a business friend in Galveston. The seller demands $\frac{1}{8}$ th of a penny per pound for cotton of average quality above the price of the day on the Exchange. The German buyer hopes, on the basis of the sample he has received, to obtain from the German consumer $\frac{3}{8}$ ths of a penny above the market price. This operation would bring him in a profit of $\frac{1}{8}$ th of a penny per pound, or of £62 10s. 0d. on the whole transaction. He therefore accepts the American offer. But no one knows whether, at the time when the goods arrive and are sold to the manufacturer in Germany, the market price will have risen or fallen.

Had the price, for instance, fallen by only $\frac{5}{8}$ ths of a penny, the German dealer, instead of having a profit of £62 10s. 0d., would have a loss of £562 10s. 0d. The whole operation would, in fact, be a most dangerous speculation. Therefore, the cotton business man must insure himself. This he does by selling on the Exchange the same quantity of cotton as he has bought. If, then, the price of cotton falls, his profit is not in the least affected, for he has already sold 500 bales, and gains as much from them as he loses on his supply which has come from America ; for, at the moment when he sells his American supply at a loss, he covers his ' bear sale ' of 500 bales on the Exchange. The operation, as a whole, comprises four transactions—two purchases and two sales. It is not the dealer who uses the market in ' futures ' in this way who is a speculator, but one who trusts to luck for the success of his operations. It goes without saying that no bank would give credit to such an importer if they knew what he was doing. This is true not only of cotton, but of all other raw materials.

The occasional prohibition of dealing in ' futures ' has had the result that German dealers have had to cover themselves in England. The need for more freedom in this respect is clear from the turnover of the Hamburg and Berlin metal markets founded some years ago.

DEALINGS IN COPPER.

(Tons)

	1910.	1911.	1912.	1913.
Hamburg -	44,745	100,035	252,205	239,260
Berlin -	—	15,680	93,800	120,810
London -	407,670	307,900	590,245	523,901

In a few years the turn-over on these young German markets in 'futures' has risen from one-third to more than two-thirds of the total business on the old London Exchange. At the same time, division and competition between these two markets has been doubtless a disadvantage, and this, too, is an error which must be avoided in the future.

Much German money, it can be proved, has been diverted to foreign markets to cover German purchases. In so far as legitimate business requires markets on which 'futures' may be dealt in, they should be provided in Germany. The memorandum of a well-known banker, which we have mentioned, prophesies that with active markets in 'futures' our stocks of raw material from overseas will increase, and that by this our economic preparedness for war will be strengthened. If dealings in 'futures' had not been allowed on the copper market, our stocks of that metal at the outbreak of war would, in his opinion, have been much smaller. An active

market in 'futures,' too, makes it possible for the manufacturer to be certain of his raw material for some time ahead, so that he himself needs to keep on hand only a very small stock. In this way he is able to economise in his working capital, and this again would react on the money market. In this connection it should be remembered that English spinners are accustomed to keep on hand scarcely one-tenth of the supplies of raw material held by German firms of the same size. The English manufacturers know at any time that they can get in Liverpool any quantity and quality of raw material they may need. The same holds true of other goods for which there is a wide market in 'futures.' The enormous quantities of raw material which our troops found at Antwerp, were in part the result of the influences we have been discussing.

§ 21. Acceptances. — The Exchanges. — German Gold.

Since the outbreak of war, a 'Free from London!' agitation has been started. This is an excellent movement, but up to now it has suffered, perhaps, from a certain lack of balance. In all discussions on this subject a disproportionately large place has been given to the demand that the Sterling Bill should be superseded by the Mark. As we have pointed out before, the immediate economic loss to

Germany through the habit of drawing bills on London is much smaller than the damage done through other features of London's supremacy. This demand, too, is harder to satisfy than many others. At the same time, no effort can be too great in support of this movement. The former practice has brought very important indirect disadvantages, and this apparent financing of German business by London is unworthy of us. It is bad, for instance, for the reputation of Germany if a great Hamburg house must ask those from whom it buys in Santos to draw on a London bank. Certainly, no one remembers now that Sterling was originally a German currency, and took its name from the 'Easterlings'—the members of the Hanseatic League—because in those early days all money circulating in England was Hanseatic.

If we are to fight against the English acceptance, we must first understand all that is involved in this preference for the Sterling Bill. We shall see the advantages which London derives indirectly from this organisation, and how difficult it will be in many cases to bring about a change. A good example is the international corn trade. A very great part of the wheat shipments from America, India, Australia and the lands bordering on the Black Sea are made on the so-called 'cargo-business' basis. The meaning of 'cargo-business' is that the final destination

of the cargo is not known when the ship sails from its port of lading. The captain receives general instructions to take a course for Europe. It is only when he reaches some port of call on the way that the actual name is given to him of the port where he is to unload his freight. In the meantime, while the wheat is at sea, the cargo itself forms an object of trade or speculation on the European corn exchanges. The centre of this business is the London Corn Exchange—the 'Baltic.' It is no accident that the centre of this trade should be in London and nowhere else, and that, therefore, all bills connected with it are drawn on London. In this instance, England has derived important advantages from one of the great weaknesses of its own economic system. No country in the world consumes anything like so much foreign corn of every kind as Great Britain, because its own agricultural output can only satisfy a very modest part of the home demand. London, therefore, became the natural centre of this important 'cargo-business.' But the whole of this business is bound up with the level of freight rates and of insurance, and the freight and insurance business finds its widest market in London, as, apart from the fact that England itself has control over by far the greatest amount of tonnage, all the shipping companies of the world are represented on the London shipping market.

There was always a continual movement to and fro between the shipping and the produce markets, and those who desired cargo space could always get the best insight into the position of the freight market in London. Insurance, again, represented by the well-known organisation of Lloyds, which in form is something between a stock exchange and a co-operative partnership, is nowhere more elastic and adaptable than in London. It must be said, to the credit of Lloyds, that anyone asking to be insured there was never hindered by bureaucratic restrictions, and always found his wishes met to the furthest possible extent. The agencies of Lloyds abroad are also so arranged that both the insured and the insurer can have their claims settled quickly and equitably. In every harbour of the world there are sitting, as representatives of Lloyds, well-paid, active business men, generally old sea captains, whose aim is always to meet the insured half way and to work hand-in-hand with them. If an accident occurs, the insurance sum is very often paid out within a few hours. The same cannot always be said of other insurance companies, German included. Their system of agencies abroad has been often incomplete; insurance policies themselves were often very complicated; and compensation for damage was not on a very liberal scale. From this we see some of the reasons why Lloyds enjoys

its supremacy. It is now, without any doubt, that capable representatives of the German insurance system should come forward with proposals for improvement. Perhaps the 'War Insurance Company' is an effective foundation stone on which something newer and better may be built up. In any case, the first point to be insisted upon is freedom from that narrow-mindedness of every kind which up to now has been fatal to all progress.

If an oversea firm in the Argentine, for example, decides to finance its business on German acceptances, difficulties frequently arise in negotiating German bills at Argentine banks. For, in the Argentine, to continue this example, the demand for bills on Germany is relatively small. It is true that in the course of recent years German merchants have obtained an important share of the market there—in particular, Germany exports to the Argentine a large quantity of iron goods, textiles, sugar, etc. But beyond the limits of these purely commercial transactions, the ties between the Argentine and Germany are relatively few. It is quite different in the case of England and France. In its relation to England, the Argentine, in addition to paying for the goods imported from that country, has to maintain its debt service in London, and its indebtedness to England is incomparably greater than to Germany. The same is true of France, to

which, in addition, millions have to be sent to pay the expenses of the natives of the Argentine who live in Paris.

Even after the war, these difficulties will, at least in part, prevent us from getting rid of the Sterling bill. And yet, in spite of them, it is clear that we should do everything possible to get free, and it is equally clear that much can be achieved with time. This we can justly infer from the developments of the last ten years, in which time the Mark bill, which before was literally unknown, has steadily gained ground. One way of familiarising the world with the Mark is to extend the system of our over-sea banks, and in this direction there is much to be done. The verdicts of our over-sea merchants on German over-sea banks vary greatly. Their activities in South America, for instance, are, as a rule, fully acknowledged, although even there the leading bankers are often too dependent on the 'green table' of the head office in Berlin, and find their activities far too much restricted. Elsewhere, in Asia, for instance, complaints are often loud against our banking representatives. We hope that those at the head of affairs are fully informed as to these matters, and that they have used the present period of quiescence to make various improvements. Necessary and desirable as competition is on the home markets, German banks

abroad ought to help each other in their task by a mutual limitation of their spheres of activity.

If the reputation of the Mark bill is to continue to grow, and in this way to act as a reflection of the increase in Germany's influence, we must at once pay full attention to the very serious question of our exchange rates. Like the currencies of all the belligerents, the Mark is to-day very much depreciated in neutral countries. The reason for this is that our export has been almost entirely brought to a standstill, and that we have been prevented by England from drawing on our deposits abroad. At the same time German shipping has been practically stopped, thereby causing the extinction of another considerable source of income. After the war we may expect, before our export trade can be restored to its full activity, an extraordinary demand for raw material, which will tend further to move the balance of trade against us. One of the most important elements of our preparations for peace will be the work of counteracting the danger of a temporary further depreciation of the Mark. The Reichsbank has known how to prepare itself through the years of peace for war, and we trust that its able directors have already started the difficult task of preparations for the first period of peace. This important work will, it is true, be made considerably easier through the payment of an indemnity,

and additional assistance will be given by our great holdings of foreign securities, the sale of which will be much more possible after the war than now. Whether, in addition, it will be necessary to increase our gold export, is not yet clear. If it is necessary, we must not be afraid to do so. Thanks to our large reserve of gold, there would be no real difficulty. In the future we hope that the Reichsbank will adopt a more liberal policy, and will realise that its reserve is large enough to allow it at any time to export gold in order to meet all movements of the exchange. In order to make this task still easier, we should suggest the formation of a gold market in Berlin. At the sittings of the last great Bank Commission, proposals with this object made by the late banker Fischel met with considerable approval. He pointed out, in particular, the error of the Mint charge of 6 Marks per kilo levied, according to German law, on all gold brought to the bank. In England there is no such charge. He recommended that the law should be altered, and that everyone who brought gold to the bank should receive full value in return. He hoped that in this way part of the supply of gold bars would be diverted from London to Berlin, and that other continental purchasers would cover part of their demand in Berlin.

§22. Our New Friends.

When we first raised the question of 'Free from London!' a year ago, we received various letters on the subject from Austria-Hungary, expressing the desire that Austria and Hungary should combine with us in getting free from London and in replacing the Sterling by the Mark bill. Since that time an active campaign has grown up for a close economic union between the German Empire and the Dual Monarchy. We will not discuss here the details and the arguments for and against such a union between the two countries. One thing is clear even to-day, that, in the future, the two countries will work far more closely together. With the entrance of Bulgaria into the war the question of an economic union between that country and the Central Powers has come to the fore. The reopening of the Danube has been rightly characterised as an event of great historical importance, and anyone who has read the excellent pamphlet, 20,000 copies of which have been distributed by the Bulgarian Government in Germany, will no longer have the least doubt that Bulgaria, where economic studies are carried out perhaps even more thoroughly than by us, has made up its mind that prosperity is only possible through close economic union with ourselves. As the result of a statistical enquiry

the pamphlet reaches the following conclusion : ' In order to avoid an unparalleled economic collapse ; in order to preserve our economic strength and to maintain the possibility of further development, we must pursue a common policy with Germany, Austria Hungary and Turkey. Only these countries consume those of our products which we can dispose of nowhere else, and through the production of which we can alone become a strong, economically independent state.'

Turkey cherishes even greater hopes of the results of union with ourselves and our friends. The great Turkish Empire is still completely undeveloped. It is almost over-rich in products useful to German industry. Wide stretches of country are only waiting for development, in particular, for railways. There is no reason why Mesopotamia should not become as great a cotton-growing country as Egypt ; Bulgarian, Greek, and Turkish tobacco is famous, the poultry and egg supply of Turkey is already very great and is capable of much further development (eggs to-day in many parts of Turkey cost $\frac{1}{3}$ th of a penny and less) ; the cultivation of corn can be greatly developed, and cattle-rearing is full of promise ; there is also a great wealth in ore and petroleum. These examples by no means exhaust the future articles of export from the Near East. The realisation of these possibilities, it is true,

cannot take place to-day or to-morrow, for there will be many difficulties to overcome. But the possibilities for pioneer work on a large scale are unlimited. East and West can no longer be kept apart.

§ 23. A Revolution in Spirit.

Germany, with its far-famed economic capacity and organising power, will and must strive for a large share in the inheritance of London. But we cannot do everything by business capacity alone. We must try to get rid of certain bad habits, which, without doubt, have done us no good abroad. In earlier days, when Germany was no more than a geographical expression, many Germans abroad made the mistake of discarding all German characteristics as quickly as possible and of assimilating themselves to their new environment. But recently, although this earlier type is still to be found, there has appeared a certain class of forward young persons who have fallen into the opposite extreme. They make a point of acting as aggressively as possible and of pushing their German nationality down the throats of all they meet. Both these types have done us harm.

We should remember, too, that Germans have made many mistakes as colonisers, and have only now gradually begun to discover the right way to

act. It will in the future be more necessary than ever for merchants, engineers, and officials who go out as pioneers, to possess the right feeling for tact. It is said that tact must be inborn ; but this is not quite true, for training can accomplish much. And we dearly need such training : the Oriental, in particular, whose friendship is of such importance to us, has a fine feeling for tact, and his political and economic sympathies will be influenced by it.

A further bad habit, harmful to our economic development, is narrow-mindedness. This, too, is very prevalent in Germany—and elsewhere as well. And this is not surprising. Even among the generation which is active to-day, the older members grew up at a time when possibilities of development were restricted and environment was narrow. With commendable foresight many of these older men have freed themselves from this petty spirit, and are second to none in enterprise and energy. Germany can be as proud of its ‘ captains of industry ’ as America itself. But many commercial circles in Germany are still unable to free themselves from these shackles. The relations between buyer and seller are still often disturbed by petty quibbling. In those industries where cartels and syndicates have not yet been formed, too great a rôle is played by dubious practices of many kinds, by infringements of payment stipulations, by unjustifiable

deductions, etc., while on the other hand the cartels are often too ruthless in their action. In this field we have very much to learn from the English business man. Long commercial tradition and international business experience have taught him long ago that broad-mindedness is the best business principle. Look at the English form of contract, the methods of insurance companies, the settlement of business disputes! You will find no narrow-mindedness there. Tolerance, another quality which the German lacks, has been of great practical advantage to the Englishman. Until recently the City has never resented the settlement of foreigners, who were soon able to win positions of importance there. Can one imagine that in Berlin, an Italian or a South American, with very little knowledge of the German language, would be not only entrusted with the management of leading banks and companies, but would be allowed in German clubs to lay down—in their faulty German—the law as to the way in which Germany should be developed? Impossible! Yet this could be seen again and again in England, and the country gained greatly by it. If the English have now developed a hatred of the foreigner, it only means that the end of England's supremacy is all the nearer.

Through her tolerance England has attracted many Germans who, for one reason or another, did

not feel comfortable in their own country, or could not get on there. Among the best of the Germans abroad are many who have emigrated for political, class, or religious motives. From Friedrich List, who was driven from home by petty persecutions, on through the period of 1848, and right up to the present day, examples can be found everywhere. In earlier days, it was the brutal power of absolutism that drove out the best Germans; latterly it has been the not less dangerous influence of prejudice. Think only of the many officers who, for unimportant reasons, have had to send in their resignations and are met everywhere in the home country with side-long glances. Think, again, of needy aristocrats who, in Germany, do not dare to take up any practical calling. Abroad they can begin, without any fear, on the bottom rung of the ladder. But at the same time, they nearly always lose their German nationality—in complete contrast to the 'younger sons' of the British aristocracy who have been the real builders of the British Empire. What parts have Villard of the Palatinate and the refugee Karl Schurz played in the United States! Paul Warburg, of Hamburg, is to-day the intellectual founder of the American Federal Reserve System, which is paving the way for the U.S.A. in South America. This American 'Reichsbank president' will remember with mixed feelings that in the land of his birth

an unwritten rule would have prevented him from even being one of the Reichsbank Board of Managers. Incidents of this kind are common enough, and the great number of German merchants abroad is proof of it. These 'oversea' Germans who have rendered such invaluable services to England, as middlemen and such like, and are now being so badly treated over there, will be needed by ourselves in the future. These men, with their knowledge of foreign languages, will be particularly important in the building up of our future position in the world. It will not, it is true, in this capitalistic era, be always easy to find a fitting place for those young Germans who are striving towards independent activity.

§24. To Work.

We have reached the end. War, that great engine of destruction, is also a great teacher. All that is antiquated is thrown to the winds. Prejudices are broken down, and the impossible becomes possible. The dweller in the town is shown the absolute necessity of agriculture for national welfare; the peasant the necessity of industry and trade. May all these changes prove lasting! Only if we do not forget the lessons of war, only if in peace we let each class work out its own salvation, only if we can look beyond the petty gains of the individual to the good of the whole, only if we retain a critical

spirit and do not fall into a mood of vain self-satisfaction, can we achieve the work that our noble Fatherland demands from us, that work which we owe to our fallen brothers. To us, too, applies the words with which Friedrich List ended his immortal masterpiece : " All that we need now can be summed up in one word. That word is *energy*."

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