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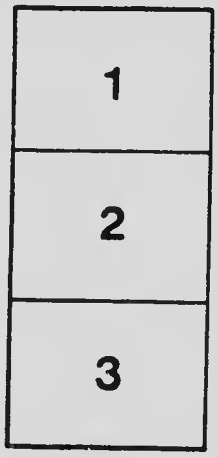
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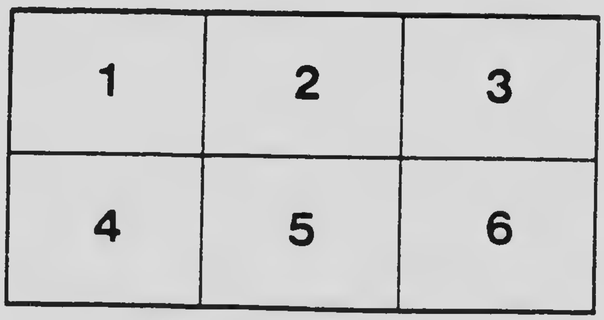
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SPECIAL BULLETIN

THE FINANCIAL POWER OF THE EMPIRE.

I.

Lombard Street and the War.

IT is a mere platitude to say that the world of to-day is linked together by almost inextricable bonds of industry, commerce and finance. Nevertheless, the full meaning of this fact was not felt or understood before the outbreak of the great world-war in August of last year. The breakdown of international credit and finance, so long predicted as the inevitable result of a war involving the great nations, almost paralysed the industrial and financial life of the whole world.

New York, London, Paris and Berlin had formed a series of financial ganglia, each being keenly sensitive to changes in the economic and financial conditions in the other centres. More than that, many of the great banking houses in these financial markets were international in character, not only controlling international capital, but being managed by directors who represented almost every important European nation. The great banking houses in these cities were Anglo-German, Anglo-French, or Anglo-American. In a word, there was a system of interlocking directorates which harmonized the economic and financial interests of the principal investing nations of the world. Gigantic corporations in London, Paris, Berlin and New York welcomed shareholders and accepted their money, no matter from what quarter of the world they came, with absolute disregard for diplomatic alliances and the world groupings of the great powers. Bills of exchange drawn on London provided an international currency for the whole world, and London itself was the pivotal point around which the far-flung commerce of the nations centred.

Nationalism in itself was no bar to co-operation in business on the one hand, or intense competition on the other. English, French, Germans and Russians worked in harmony behind the high protective tariffs of Russia, Mexico, the Argentine, Brazil and China. British capital was invested in Germany, and German capital in British Colonies. French and German capitalists competed in Russia and Turkey. At the very moment that war was declared British armament firms were constructing battleships for Turkey, and German officers were reorganizing the Sick Man's military forces. These facts are obvious now, it is true, yet they were really not part of the every-day thinking of the masses of the people. It required the shock of war, which suddenly destroyed the great edifice of world-wide commerce and finance, to prove the truth of Norman Angell's contention that the economic interests of the nations are one.

Six or seven months ago the world had achieved at least a mechanical unity. The merchant in New York or Pekin could telegraph money or messages in a moment to any part of the globe. Almost at any time, on any day, one could buy transportation to any part of the civilized world. Year after year, with but slight interruptions, this process had been going forward; and year after year the boundaries of what we call civilization were being extended. Then, with paralysing suddeness, this artificial structure of commerce, trade and finance was submerged as completely as Herculaneum was blotted out by the ashes of Vesuvius.

Almost in a day the exchanges of the world closed their doors. At the moment securities ceased to be saleable the currencies of the nations ceased to be interchangeable. Every belligerent power, with the exception of the United Kingdom, and many neutral nations, suspended gold payments. Then followed the declaration of moratoria almost everywhere—except in Germany—of varying scope and degree. While Germany did not declare a moratorium it adopted devices for postponing the payment of debts, which amounted practically to the same thing. Within a few months, however, the United Kingdom was able to abolish its moratorium decree, the first declared in its history. France has gradually and steadily lessened the restrictions on the collection of debts imposed at the outbreak of war. In most other countries, however—in Europe, in South America, and in the East—moratoria have been extended either in their first form or modified in greater or less degree.

Neutral nations as well as belligerent were forced to adopt this expedient. Austria, Belgium, Italy, Greece and Bulgaria, as well as the Scandinavian countries, either declared moratoria, or, as in the case of Holland and Switzerland, authorized their courts to grant extensions of time to debtors. South

Africa gave the Governor-General power to grant relief to debtors, either by extending the time for the payment of debts, or by the stay of execution of debts incurred before August 4, 1914. New Zealand enacted a law making it unlawful for a mortgagee to foreclose on a mortgage until six months after the end of the war, except by consent of the Supreme Court. The principal countries of South America—Brazil, Argentina, Peru and Uruguay—all declared moratoria of one kind or another. In view of the fact that the Argentine Republic has proved Canada's chief competitor, both in the securing of capital in Europe and in the marketing of products abroad, the measures adopted there are of more than passing interest. The Argentine Republic granted its banks thirty days' delay in meeting their obligations; and extended the moratorium until the Conversion Office should resume the exchange of gold for paper. Later the obligation of the Conversion Office to exchange gold for paper was suspended until further notice, thus automatically extending the moratorium. The banks were authorized to pay only twenty per cent., at any one time, of deposits due any creditor. Even then good reason had to be shown that the withdrawal was necessary. This should be borne in mind in connection with Canada's financial position, which will be discussed later. The United States did not declare a moratorium, it is true, but the banks agreed to refrain from demanding the payment of call loans on stock exchange collateral as long as the exchanges were closed. This may be regarded as an application, in part at least, of the moratorium principle.

At the outbreak of the war Mr. Lloyd George, Chancellor of the Exchequer, lost no time in assembling a committee of the ablest financiers of England to advise the Government concerning the adoption of proper financial measures. For several weeks prior to the outbreak of hostilities the atmosphere of the Continent was electrical, and foreboded a great financial storm. Undoubtedly the bankers of Berlin and Paris had received information from their respective Governments that war was not only a possibility, but a probability; and they immediately began to sacrifice securities on the London and New York exchanges. British holders of American stocks and bonds also began to prepare for the struggle by selling large amounts of securities in America. At the beginning of this movement Paris was considerably indebted to London; but English balances in France were soon exhausted by a heavy selling movement in securities on the London market, directed from Paris. London, therefore, was obliged to ship gold to Paris, to which, however, the outbreak of war put an end.

As has been said, the declaration of war demoralized the stock exchanges of Europe and America. Continental banks, as far as possible, withdrew their balances from London. English creditors were pressing American debtors for payment, with the result that bills of exchange drawn on London sold at unprecedentedly high figures in New York. Indeed, exchange soared high above the gold export point, and there were heavy shipments of the yellow metal to Europe. England's very financial strength proved an embarrassment to neutral nations who were indebted to her. At the outbreak of war the United States owed about $350,000,000 to the United Kingdom, for which it was impossible to make immediate payment in gold. This debt, it may be noted in passing, has been made good since by the shipment to England of American commodities, such as cotton, wheat, oil, etc.; and by heavy purchases of war supplies in the Republic on English account.

Lombard Street, the greatest financial centre in the world, weathered the storm successfully and proved how enormously strong is the English financial system. On July 30 the Bank of England's discount rate was increased from three per cent. to four per cent., and on the next day to eight per cent. On August 1 it reached the unprecedented figure of ten per cent. On August 2 the moratorium on bills of exchange, to which we have referred, was declared; on the following day a bill for a general moratorium passed Parliament.

At the close of August 1, before a single shot had been fired, and before there had been any destruction of property by hostile armies, the whole world-wide fabric of international credit and finance had vanished. The London stock exchange had been closed, and the discount market was demoralised; the acceptance houses were unable to obtain the necessary funds to cover bills of exchange as they became due; and the liquid assets of the joint stock banks—that is, their stock exchange and money market loans—became unreliable as reserves just at the moment when depositors were beginning to withdraw their funds. Commerce throughout the world was at a standstill; everyone began to hoard gold; and the Bank of England's resources were put under terrific pressure. It was at this moment that David Lloyd George, surrounded by a group of eminent financiers, decided upon decisive action. The Government guaranteed the Bank of England against any loss it might incur by discounting bills of exchange which had been accepted before August 4. In addition, the Government determined to come to the support of the financial institutions of the nation by issuing a legal tender paper currency in denominations of one pound and ten shillings respectively. This issue of paper money was limited to an amount equal to twenty per cent. of the deposits in the banks of the United Kingdom—that is, to a maximum of £200,000,000. On any advances of this paper currency that might be made to the banks, the Government charged 5 per cent. interest. These measures almost immediately restored confidence in the London financial market; and placed the Government in a position to turn to account the wonderful money power of the Unitel Kingdom.

Talleyrand once cynically remarked that speech was given to man in order that he might conceal his thoughts; and perhaps the reader may conclude that most financial articles bear out this saying. We shall, however, attempt to escape this charge, and explain more clearly and precisely what was involved in the above measures.

The chief difficulty in London at the outbreak of war was found in preserving intact the financial mechanism of Lombard Street. The smooth working of the financial machinery in this market is vital not only to London and the United Kingdom, but to the whole world. It is chiefly through the London money market that the world's trade and commerce is financed. By means of bills of exchange drawn upon London, grain, manufactured goods, metals, coal, oil, rubber and other articles required by civilized and uncivilized man, are carried over the seven seas to their ultimate destination. and to the final consumer. Now, the sellers of these goods cannot, as a rule, wait for the money due them until dealers finally realize upon their purchases. The London money market—that is, the banks, the bill brokers and the acceptance houses—provides the capital necessary to carry on this vast international trade. In other words, Lombard Street buys and sells bills of exchange, through which and by means of which, foreign trade is carried on.

London has made a specialty of international bills of exchange; and these bills are regarded as good as gold in every quarter of the world. German, Austrian, Russian, French and other dealers, arrange with London accepting houses to accept the bills that are to pay for goods bought in countries all the way from China to Peru. For example, a Hamburg merchant buying cotton from Texas, or coffee from Brazil, or wheat from the Argentine, or silk from China, or opium from India, or cocoanut oil from the South Sea Islands, or ostrich feathers from South Africa, arranges with an English acceptance house to accept the drafts which are to pay for these commodities. The English acceptance house, while accepting the draft for the Hamburg merchant, and thus becoming liable for its payment, requires him to sign a certificate guaranteeing that, through his banker, or otherwise, he will put the acceptance house in possession of funds shortly before the bill is due, generally three days before it matures. In the meantime the Brazilian or other seller of the goods gets a first-class financial document, guaranteed by a strong financial English institution. These bills, which, as a rule, run for a period of three months, can be immediately discounted by the exporter, who thus receives his money at once. On the other hand, the Hamburg importer gets possession of the goods as he signs the certificate guaranteeing to put the English acceptance house in possession of funds to meet the draft when it becomes due. Having secured the goods he either sells them, or manufactures them into the finished product; and before the three months' period is up, he has realized a sufficient sum from the sales he has effected to meet his obligations in London. The English acceptance house, of course, receives a commission for carrying out its share in such transactions. London levies an enormous toll upon the commerce of the world which flows in this way through her gates.

It is estimated that ordinarily there are £300,000,000 of such bills in the London market. This huge sum is being lent by Great Britain, as we have said, to finance the trade of the world. It is true that this in part represents the trade of Great Britain itself; but a huge business is done on foreign account. It is because of the vast resources of the London discount market that all the leading banks of the world find they must open branches in that city, whether they are French, German, Austrian, American, Canadian, Russian, Chinese or Japanese.

Consider the position, for a moment, of the accepting houses, which were responsible for the payment of this vast sum of £300,000,000 within a period of not more than three months. The dealers in exchange are, in the main, the bill brokers, the large private bankers, the accepting houses, and, to a less extent, the joint-stock banks. The outbreak of war relieved them in no particular from meeting their obligations; while, on the other hand, it was, of course, impossible to collect from German and Austrian importers, and from other European buyers who had been embarrassed by the war. Temporary relief was given to the acceptance houses by the declaration of the moratorium, to which we have already referred, which suspended payment upon their obligations for a time.

In the course of years this wonderfully efficient and highly delicate credit mechanism has been evolved to meet the needs of the world. The system works with accuracy, smoothness and precision at ordinary times; but in order to keep the machinery in operation the stream of remittances from home and abroad must flow to the acceptance houses steadily, and the brokers and other dealers must continue to purchase the bills of exchange which are offered for discount in the market. A sudden blow to this system, severe enough to stop the process we have outlined, will paralyse the whole money market; and between July 28 and July 31 the whole machinery did come to a sudden stop, and the money market was reduced to chaos.

In the last analysis the London credit system depends upon the power of the great joint stock banks to furnish the money to carry on financial operations. These banks have deposits of £1,000,000,000, which are utilized in large part to purchase bills of exchange and to advance money to bill brokers to permit them to enter the discount market and deal in bills. Thus, the bills of exchange, either by direct purchase by the joint stock banks, or by way of security in advances to bill brokers, find their way for the most part to the portfolios of the joint stock banks. If these banks cease to purchase, or to lend on, bills, serious trouble must result.

At the first sign of trouble the joint stock banks began to protect their reserves, and to strengthen themselves in every possible way to meet the coming storm. They ceased buying bills, and began to call in their loans from the discount houses and bill brokers. These latter, therefore, were placed in a difficult and dangerous situation. They are the middlemen who hold enormous amounts of bills partly through the use of their own capital, but mainly on money borrowed from the banks and other financial houses. In order to repay their loans they would have to sell their bills. But the joint stock banks refused to buy bills; and, as has been said, at the same time called in their loans. The dealers in foreign exchange were thus ground between the upper and the nether millstone. Their only recourse was to discount their bills at the Bank of England; but that institution rarely takes any but short-time paper. Moreover, as the Bank of England continued to raise its rate of discount until it finally stood at 10 per cent., the brokers and discount houses could not realize upon their holdings at the Bank except at ruinous rates.

It will be necessary to recall at this point that at the outbreak of war, owing to the pressure brought by England upon her debtors abroad, there was a rush to buy bills of exchange payable in London. Exchange, as a result, rose to an impossible figure, particularly in New York. So high indeed did it become that debtors could remit to London only at a great loss. Finally, too, the United States ceased to ship gold, as its banks wished to protect their own position; and thus, between the impossibility of shipping gold, and the abnormally high rate of exchange, Americans could do little or nothing to relieve the situation in London. They could not discharge any great part of the $350,000,000 for which they were indebted to the United Kingdom. But in the meantime the London accepting houses were protected by the declaration of the moratorium, which relieved them from the obligation of meeting £300,000,000 within three months, or £4,000,000 each business day. In addition, the Government guaranteed the Bank of England against any loss it might sustain through discounting bills accepted before August 4. This permitted the Bank to advance loans freely to the bill brokers and the discount houses at fairly reasonable rates. And finally, the Government advanced to the banks about $270,000,000 in a legal paper currency.

The declaration of the moratorium had relieved the situation, but it could not get the wheels of trade revolving again. The joint stock banks would not buy new bills as long as they could not realize on those they held; the discount houses had very heavy liabilities in respect to the bills they held, or had sold to the Bank of England, and they were not willing to add to their liabilities by making new purchases. The trade of London and of the whole United Kingdom had come to a stop. And not only had the commerce of the United Kingdom come to a standstill, but the international trade of the world. Grain was piling up in New York and Montreal; cotton in New Orleans and Galveston, and a thousand and one other products were lying on the wharves of the various exporting nations. It was absolutely necessary, therefore, to get the stream of foodstuffs and raw materials moving again toward the United Kingdom and other countries. It was at this point that the Bank of England and the Government came to the support of the London market by the methods mentioned. Through the government guarantee the Bank was able to advance funds to the discount houses, and to the bill brokers, permitting them again to go into the market and buy bills of exchange. The liability of the accepting houses, of course, remained as before; but they were not required to make payment until a year after the war.

In addition to all these measures the Government undertook to carry 80 per cent. of the war risk on marine insurance. The Bank of England, moreover, arranged for the transference of gold from the United States to Ottawa, to avoid the risk ~~of gold from the United States to Ottawa, to avoid the risk~~ of loss by shipment to Europe. The Bank also arranged to purchase gold in South Africa, and to deposit it with the Government of that Colony. This measure proved invaluable to the South African gold interests. At first considerable gold was sent from New York to Ottawa; but at present the movement is in the other direction. New York exchange has again become normal; in fact, it is now in favor of America owing to the immense shipment of food supplies from this continent to England, and the heavy buying of war materials in the American market.

Before we leave this phase of the subject something further should be said concerning the paper money that was issued in the United Kingdom. This paper money is equivalent to gold, and is backed up in large part by gold deposited to the credit of the Government at the Bank of England, and in part by government securities. England, indeed, as has been said, is the only belligerent nation that has remained on a gold basis. Up to the present time she has not found it necessary to suspend specie payments; although every belligerent country, as well as many neutral nations, including Canada itself, has been obliged to adopt this expedient. Perhaps in no other one particular has the vast financial power of the United Kingdom been so clearly disclosed as in her ability to maintain her currency on a gold basis, and to continue to finance the international trade af the world.

II.

The Financial Resources and the Investment Power of the Nations Involved in War.

In carrying on the present conflict the ability of the respective belligerents to secure war material abroad counts tremendously in the final issue. The United Kingdom has had for several months undisputed command of the sea, and there is no possibility of her enemies menacing her position there. France has also access to the markets of the world. The case is somewhat different, however, with Russia. At the time of writing the only ports through which she can ship and receive supplies are Archangel and Vladivostok; although, of course, during the winter months the former port is closed by ice. At the same time, however, it should be remembered that Russia has received enormous quantities of goods by way of Sweden. The connecting link between the Swedish and the Russian railway systems of the north was forged soon after the outbreak of war; and over that line Sweden has been pouring vast quantities of goods into Russia. Great Britain and France have bought at least $500,000,000 worth of war materials and supplies in the United States. Indeed, when it is recalled that the Republic has been virtually turned into a vast arsenal for supplying munitions of war to Great Britain, France and Russia, it will be seen that the United States is as effectively helping to bring the war to a successful conclusion, as far as the Allies are concerned, as if it were actually engaged in the struggle itself.

One of the striking features of the present world-wide war is the fact that the greatest leading nations of the world —Great Britain, France and Germany—are involved. Russia, on the other hand, and Austria-Hungary are borrowing, rather than lending, nations. The United Kingdom has at least $20,000,000,000 invested in all parts of the world; of which over one-half has been placed in North and South America. Her investments in the United States amount to about $4,500,000,000; in Canada to about $2,500,000,000; and in South America, particularly the Argentine Republic, Brazil and Chile, very large sums have been placed. The interest on her huge foreign investments amounts to about $1,000,000,000 a year. As has been said, the United Kingdom has placed its funds in almost every civilized and uncivilzed country throughout the world, and especially in the United States, Canada, the Argentine Republic, Brazil, Chile, India, Australia and Africa. In recent years she has not been increasing her investments in European countries, with the exception of Russia.

French foreign investments amount to about $9,000,000,000; the interest on which yields the sum of $450,000,000 annually. France has never ventured far afield in placing its capital investments, and has preferred to hold semi-investment or investment securities, rather than speculative securities which yield high returns. The French have placed their money largely in Russia, Italy, Austria-Hungary, Turkey, and the Balkans, buying from these nations Government bonds and municipal securities. Industrials have never appealed very strongly to French investors, although France holds large amounts of railway securities in the countries mentioned. That country has invested considerable sums also in Mexico, and smaller amounts in the United States and Canada.

Germany's foreign investments amount to about $5,000,000,000, the annual interest of which yields $250,000,000. Germany stands in an intermediate position between Great Britain and France, with regard to the types of securities in which it has placed its money. The Germans have been more venturesome than the French, buying widely semi-speculative securities; but yet they have not gone as far as the British in placing their capital in new and untried undertakings. A great deal of their capital is invested in Russia, large amounts in Austria-Hungary, and considerable sums in North and South America. German investors hold large blocks of Canadian Pacific and Union Pacific stocks. A good deal of German capital also has been invested in the Near East, in China, and in South African mines.

Russia, as has been said, is not a lending nation. For generations to come that vast empire will be obliged to borrow capital to develop its great natural resources. At the present time Russia owes very large sums to Berlin and Paris, and must meet the interest on French holdings by further borrowings, at least during the course of the war. In recent years, as has been said, the United Kingdom has invested considerable sums in Russian railways and in industrial and mining concerns.

We are now in a position to understand the great financial strength of the United Kingdom, as compared with that of Germany. Germany has too much capital invested in the war zone, and in belligerent countries. She has very large sums, as has been said, in Russia, Canada, and other parts of the British Empire, which will certainly yield no return during the course of the war. Germany took big chances in Turkey and in the Near East. Upon all these investments she is bound to suffer loss, at least during the course of the war. At the same time Germany must find at least part of the sinews of war for her allies. Therefore, in surveying the financial position of Germany it seems clear that her foreign investments will yield her very little as long as war lasts.

It is true that American stocks held in Germany could be sold in the United States, but only at a great loss. On the other hand, France is not in a much more favorable position, as she has too much capital invested in Austria-Hungary, Germany and Turkey; while her huge holdings of Russian securities will yield her little or nothing during the course of the war. Indeed, France and Great Britain have had to come to the help of the Russian Empire in order to modify the foreign exchanges. Russia, being in debt to both Great Britain and

France, and at the same time being obliged to buy huge military supplies abroad, found herself in an exceedingly difficult financial position at the outbreak of the war. The foreign exchanges turned against St. Petersburg, and it became difficult to make payments in London, New York and Paris. The United Kingdom, however, soon came to the help of her ally. Russia borrowed $60,000,000 at the Bank of England, and floated a $50,000,000 loan in London. Recently it was decided at Paris, at a meeting of the finance ministers of the allied Governments, to furnish Russia with an additional loan of $250,000,000, half of which is to be raised in Paris, and half in London. It is interesting to note that American financiers have recently advanced $25,000,000 to Russia; and it may be quite possible, despite the neutrality of the United States, that much larger sums will be privately secured for Russian account in New York.

As has been explained, so strong was Great Britain's financial position at the outbreak of war that she almost created a panic among her debtors by calling in the short-time loans due her. We have already remarked on the unprecedented state of foreign exchange at this time. It cost, for example, at one time over $7 to pay a debt of £1 in London, so great was the demand for bills of exchange on the latter centre. This was due, of course, to the pressure that Great Britain brought to bear upon American debtors. So great was the force that the United Kingdom was able to exert upon the whole world for the payment of money that moratoria were declared far and wide, to protect local interests. American exchange, however, slowly righted itself through the shipment of gold from New York to Ottawa, and the purchase of enormous amounts of war supplies by Great Britain in the United States.

The American Secretary of the Treasury has estimated that the United States owed Great Britain, on current account, at least $450,000,000, all of which had to be paid not later than January 1, 1915. It will be seen, therefore, that with such large sums due to Great Britain there was no immediate necessity for that country to sacrifice its holdings of securities on the New York, or any other, stock exchange. Indeed, it would have been impossible, under the circumstances, to have done so; as it will be recalled the stock exchanges everywhere were closed at the outbreak of war.

During the six months since the beginning of hostilities, Great Britain has imported $768,000,000 worth of goods more than she has exported. This compares with an excess of imports for the corresponding period of last year of $367,000,000. It might be wondered how the United Kingdom could buy such enormous supplies of goods, and at the same time actually strengthen her credit position everywhere. The Bank of England has to-day much greater gold reserves than it held a year ago. It must be kept in mind, however, that during this period British shipping has earned in freight charges at least $225,000,000; while the interest on the country's foreign investments, during the same period—deducting all bad accounts and losses due to the war—has amounted to about $425,000,000. When these sums are taken into account it will be seen that only about $118,000,000 of the imports has yet to be accounted for. That amount undoubtedly has been made good by commissions on banking business, on foreign account, transacted through London; by insurance premiums on British insurance business abroad; and by remittances from India by officials in the Civil Service. Thus it is clear that the United Kingdom has not reduced its capital holdings abroad by a single dollar; and, therefore, the enormous annual return on its foreign investments is available to help finance the war.

At the same time it must be remembered that the United Kingdom has not only taken care of its own needs, since the outbreak of hostilities, but has made arrangements to help finance its Colonies, Dependencies, and Possessions, as well as its Allies. For these purposes Great Britain has advanced the following sums:—

British Colonies	$225,000,000
Russia	110,000,000
Belgium	50,000,000
France	50,000,000
Roumania	25,000,000
Servia	4,000,000
Total	$464,000,000

Part of this, to be sure, has been furnished to take care of loans that were made before the war to some of the countries concerned. In order further to protect its financial position, the United Kingdom has forbidden the flotation of any industrial or commercial loan in the London money market until all Government requirements have been met. While the British Treasury has no control over the market as such, still it had been given power to supervise and control stock exchange transactions. Thus the Treasury is in a position to make its will effective.

In connection with all that has been said we should not overlook the domestic situation. The annual income of the people of the United Kingdom, according to the estimate of David Lloyd George, is $11,000,000,000. It is possible that there will be some falling off in this income during the course of the war, but yet the loss will be very slight indeed. Unemployment is actually less at the present time throughout the Kingdom than it has been for years, and most industries are working overtime to fill war orders. When we regard the state of Great Britain's public debt also and compare it with the debts of other nations, it will be seen that she can easily carry the load of taxation made necessary by the war. The following table furnishes some interesting data on the finances of the leading nations of the world:—

Country.	Debt Before War.
Great Britain	$3,305,000,000
Germany	1,200,000,000
France	6,575,000,000
Belgium	740,000,000
Austria-Hungary	2,450,000,000
Russia	4,450,000,000
Servia	130,000,000

It will be observed from these figures that Germany's debt is very much smaller than Great Britain's and a great deal less than that of France. At the same time, it must be kept in mind that the German debt does not include that of the individual German States, such as that of Prussia, Hanover, Saxony, Bavaria, and so forth. When these are added there is very little discrepancy as far as the debts of Germany and the United Kingdom are concerned. In this connection it is well to keep in mind that the former nation has been practically cut off from the commerce of the civilized world; and hence it must prove increasingly difficult for Germany to find new funds to finance the war, and at the same time to raise revenue to meet the interest on its national obligations.

A careful study has been made recently by the Bureau of Foreign and Domestic Commerce of the United States concerning the financial resources of the nations engaged in war. The figures presented, however, mean little or nothing in themselves unless they are properly interpreted. On July 1 last the per capita debt in each of the countries was: Great Britain, $72; Germany, $18; France, $166; Belgium, $97; Austria-Hungary, $48; Russia, $21, and Servia, $44. The war debt incurred since that date has added the following per capita debt: Great Britain, $34; France, $46; Germany, $39; Belgium, $17; Austria-Hungary, $35; Russia, $15, and Servia, $44. The present per capita debt is: Great Britain, $106; France, $212; Germany, $57; Belgium, $114; Austria-Hungary, $83; Russia, $36, and Servia, $88.

If one were to judge of the financial power of the nations by their per capita debt, France would be in a very weak position as compared with Germany, Russia and other European nations. But it must be kept in mind that the German national debt does not include State debts, as has been already explained. Moreover, debts, whether per capita or aggregate, must be reconsidered in relation to the earning capacity and the liquid resources of the countries in question; and in these respects France is one of the strongest financial Powers in the world. This point, however, will be examined at greater length later in this article.

The money cost of the great struggle is likely to exceed any war expenditure ever incurred. Mr. Lloyd George, the British Chancellor of the Exchequer, estimated that the cost to England alone in a single year would be $10,000,000,000. The advices received by the Department of Commerce indicate that this estimate was exaggerated. The cost to all the Powers involved up to January 1, as shown in funded debts, is only $650,000,000 in excess of the British Chancellor's estimate for Great Britain alone. These war loans follow: Great Britain, $1,560,000,000; France, $1,815,000,000; Germany, $2,600,000,000; Belgium, $130,000,000; Austria-Hungary, $1,815,000,000;

Russia, $2,600,000,000; Servia, $130,000,000; grand total, $10,650,000,000.

The daily cost of the war is placed at $50,000,000, distributed as follows: Great Britain, $7,500,000; France, $8,750,000; Germany, $12,500,000; Austria-Hungary, $8,750,000; Russia, $12,500,000.

These figures—especially those for Austria-Hungary and Germany—show that they have already drawn heavily on their financial resources. Austria, in fact, cannot continue to compete with the Allies on the financial side of the struggle; and for the future must receive help from Germany. The Dual Alliance, under this tremendous financial strain, will reach the limit of its resources long before the war funds of the Allies are exhausted. Lloyd George was within the mark when he said the last billion dollars will win the war. And England has that last billion.

The United States Bureau of Commerce has prepared the following table, showing the income, expenditure and funded debt of the principal nations prior to the outbreak of war. It will be observed that the revenues of Austria-Hungary are greater than those of either the United Kingdom or of France. This merely means that Austria—a nation that cannot be compared with Great Britain or France as far as financial strength is concerned—has laid a very heavy economic burden upon its people. The figures are as follows:—

Country.	Annual Revenues.	Annual Expenditures.	Debt.
Aus.-Hungary	$1,167,575,000	$1,169,508,000	$2,450,000,000
Belgium	146,227,000	148,677,000	825,518,000
United Kingdom	918,805,000	917,929,000	3,305,000,000
Bulgaria	36,732,000	36,463,000	135,300,000
Denmark	30,599,000	28,497,000	95,579,000
France	914,604,000	914,550,000	6,575,000,000
Germany	879,656,000	979,676,000	1,197,000,000
Greece	25,939,000	27,725,000	206,640,000
Italy	512,800,000	505,841,000	1,117,418,000
Netherlands	91,823,000	101,845,000	461,649,000
Norway	41,559,000	41,006,000	97,215,000
Portugal	81,966,000	80,909,000	947,603,000
Roumania	103,507,000	103,507,000	316,693,000

Russia	1,832,505,000	1,832,505,000	4,450,000,000
Servia	24,694,000	22,717,000	130,000,000
Spain	224,904,000	220,548,000	1,814,270,000
Sweden	73,362,000	73,362,000	161,390,000
Switzerland	19,073,000	20,350,000	23,614,000
Turkey	132,242,000	152,198,000	875,654,000

Statisticians have, from time to time, attempted to form an estimate of the wealth of the different nations of the world. At most, such estimates are more or less accurate guesses of the facts. Expert statisticians of the United States Government, however, have recently made such an attempt; and the results achieved are found in the following figures:—

United States	$150,000,000,000
Great Britain	85,000,000,000
Germany	80,000,000,000
France	50,000,000,000
Russia	40,000,000,000
Austria-Hungary	25,000,000,000
Italy	20,000,000,000
Belgium	9,000,000,000
Spain	5,400,000,000
Netherlands	5,000,000,000
Portugal	2,500,000,000

In examining these figures the reader should remember that there is a vast difference between fixed forms of wealth and wealth in a liquid form that can be made available to finance a great world-war. The United Kingdom, as will be shortly shown, is the strongest financial Power in the world, although the United States is a wealthier nation. The Republic has great natural resources in lands, forests, mines and so forth, which make up a large part of its colossal wealth. If the British Empire, as a whole, is considered there is no other political aggregation in the world that approaches it in point of fixed forms of wealth or of available financial resources.

In concluding this section of our study the reader may be reminded that Great Britain has financed herself in small part by increased taxation and to a great extent by borrowing. The income tax has been more than doubled; so that some classes of income now pay as high as 8 per cent. Before the war Great Britain was reducing her national debt and financing all civil, naval and military expenditures out of revenue. Because of this, among other reasons, the British Government found itself in a strong financial position at the outbreak of war. Germany, on the other hand, had been increasing its national debt, being unable to cover expenditures out of revenue. Since the war that nation has increased the tax on capital, has borrowed large sums, and issued Treasury notes against personal notes and even jewelry. France has borrowed large sums, not only from the public but from the Bank of France, the Bank having greatly increased its note circulation for that purpose. As far as one can judge from the available data, the paper money of Germany is already at a discount, and the country will be very close to the end of its financial resources before the year is out.

III.

Great Britain's Commercial and Industrial Strength.

Few people realize the extent to which trade, or at least international trade, depends upon foreign investments. When we read that the United Kingdom has made a loan, say, of $25,000,000 to China, or Japan, or the Argentine Republic, or Brazil, it does not follow that the actual gold is shipped. What actually occurrs is that the country concerned has received credit in the London money market, against which it can draw bills to finance various undertakings. It is natural, of course, for the country that receives such credit to buy its supplies from the nation that furnishes the investment capital. Thus, if the Argentine Republic receives $25,000,000 from the United Kingdom it is virtually equivalent to giving that country a new railway, or a number of grain elevators, or a harbor, or floating drydocks, or battleships or any of a hundred and one other things which its people may need, or think they need, at the time. And it follows also, quite naturally, that the nation furnishing the credit will also provide and supply the materials, machinery and general equipment necessary for the undertakings mentioned. It is in large part due to their capital investments abroad that the United Kingdom and Germany have built up their foreign trade.

Now when that is kept in mind it will be easy to understand why the commercial and industrial strength of the United Kingdom has continued to increase. The following figures illustrate the diversity and the extent of England's investments during a single year:—

British Colonies.

Australia	$ 61,000,000
Canada	137,000,000
South Africa	65,000,000
India	65,000,000
Other Colonies	22,000,000
	$350,000,000

Foreign Countries.

The Argentine Republic	$124,000,000
Brazil	60,000,000
Chile	20,000,000
China	15,000,000
Columbia	4,500,000
Denmark	2,500,000
Ecuador	2,000,000
Egypt	3,800,000
Finland	12,000,000
Japan	65,000,000
Mexico	65,000,000
Nicaragua	2,300,000
Norway	2,000,000
Persia	6,000,000
Russia	45,000,000
Turkey	1,000,000
The United States	63,000,000
Uruguay	3,000,000
Miscellaneous	25,400,000
Total	$503,000,000
Grand total	$853,000,000

This table gives one some conception of the investment power of the United Kingdom, and the extent to which it has laid the whole world under financial obligations to itself. Sir George Paish, editor of the London Statist, estimates that, on the average, the United Kingdom invests each year $1,000,000,000 abroad. This money flows, in part, into the government treasuries of the various countries involved. It buys battleships, guns and war materials of all kinds; it opens up mines, it develops agriculture and industry; it constructs railways and harbors and other great national works—in a word, it flows into every channel of trade and enterprise in which there is a possibility of adding to the world's wealth and yielding a return to the English investor.

Let us now consider briefly the effect of the war on the capital investments of Europe. As has been pointed out, the United Kingdom, Germany, France, Holland, and Belgium, have been the chief investment nations of the world. For years to come Belgium will be unable to do more than look after her own needs; and the same may be said in lesser degree of both France and Germany. The United Kingdom, however, unless invaded, will have large sums of capital for foreign investment. Without doubt English investors will turn to Europe, for a time at least, in an attempt to make good the losses and the destruction caused by the war. This will be a serious matter for Canada and the United States, as well as for South America and the countries of the Far East.

While it is difficult to predict the course of interest rates after the war, it would appear that money will rule slightly higher than in the past few years. But it is scarcely possible that interest rates will rise to the figure some have imagined. It is astonishing how quickly a country wasted by war can make good its losses. It will be recalled that France by 1873 had not only paid a huge war indemnity of $1,000,000,000 to Germany, but had also begun to prepare the way for a return of prosperity. By 1878 France was commercially and industrially stronger than she had ever been before in her history; so that Germany, astonished at this rapid recovery, prepared once more to strike her rival to the ground. And just as France recovered from the wounds of war, it may be expected that Europe in the course of a few years will also be rehabilitated. Trade and commerce will proceed along normal lines again, while at the same time there will be a great demand for capital to rebuild what has been destroyed, and to construct new works. Between the competition at home and abroad for capital funds it is altogether likely that interest rates will slightly rise. Nevertheless, savings, and hence investment funds, will grow, as economy will be the watchword of all.

Much has been said since the outbreak of war as to the possibility of the United States capturing German, and, in part, British trade in South America and the East. This, however, appears to be a hopeless dream on the part of the American people. The foreign trade of Germany is not at the mercy of the United States; and to a much less extent is that of Great Britain. In order to capture that trade the United States must furnish the Republics of South America with capital to develop their resources; because their prosperity in the last decade has depended upon the inflow of foreign capital. But the United States, at the present time, and for years to come, will find that the home market will absorb all its available investment funds. From 1895 to 1914 the population of the United States increased from 69,000,000 to 100,000,000—an advance of over 30,000,000. This increase of population, together with the vast natural resources of the Republic, furnishes an insatiable demand for capital. This explains in large measure why the United States has placed only small investments abroad, such as have been made being confined largely to Canada, Mexico, and to a very slight extent, South America. On the other hand, the United Kingdom has poured enormous supplies of capital into North and South America, and into Asia. It was English capital, largely, that built American railways; and in building those railways a demand was furnished not only for steel and other railroad equipment from Europe, but also for the tin of Wales, the linen of Ireland, and the cotton of Lancashire, and many more British commodities. And so in South America. Brazil, for example, has been almost completely financed by England and Germany. That country bought from the United States, in 1914, $30,000,000 worth of goods and sold the United States—chiefly coffee, rubber and hides—$101,000,000 worth.

An examination of the trade between Brazil and the United States explains why England and Germany control the bulk of the trade of South America. The ships that carry Brazilian produce to the United States return to South America via Liverpool and London, Hamburg and Bremen. They carry coffee and rubber to the United States, and cotton, grain, oils, etc., from the United States to England. From England they proceed to South America with cargoes of manufactured goods —machinery, railroad supplies, and so forth. The solution to this problem is found in the credit situation existing between the countries concerned. The United States settles the balance of her account with Brazil by paying bills of exchange in London, drawn to the credit of the latter country. The United States, it is true, does not actually pay in cash, but settles the balance by shipping to England manufactured goods and the products of the soil. Great Britain, in turn, ships to Brazil goods of all description, to meet the credit balance which she has arranged for that country in London. Brazil, on its part, attempts to meet its obligations as far as possible by discharging them in the form of exported goods.

Now, when it is kept in mind that Great Britain has invested in South America about $3,500,000,000, the interest upon which each year amounts to between $160,000,000 and $170,000,000, it will be understood why there is such a great trade developed between the United Kingdom on the one hand and South America on the other. Great Britain furnishes the capital in the form of goods and receives payment in the form of goods. Until the United States can successfully compete with Great Britain in this process it will be impossible for the Republic to offer any serious competition. But as has been pointed out, the United States has invested only small sums in South America. The Americans own a small railroad in Ecuador, a few trolley lines in various cities, some big mines in Peru and Chile, and also a few plantations of coffee and rubber.

Another important factor that influences the general situation is the banking power of the United Kingdom. Great Britain and Germany have had, for many years, strong banking connections with South America. It is only during the last year that it has been possible for the United States to establish bank branches in foreign countries. At the present time the Americans have one bank in South America. In order to secure any considerable part of the banking business of that continent it will be necessary to grant local credit as liberally as the British and German banks have done in the past. In addition to that, American bankers will have to overcome the prejudices of South Americans with respect to bills of exchange that are used in settling their foreign indebtedness. As we have explained, the bill of exchange drawn on London is the international currency of the world. It is drawn in pounds, shillings and pence; and if the Americans are to compete with the British through offering bills drawn on New York, it will be necessary to instruct the South Americans how to make computations in a new money medium, namely, dollars and cents. This may seem a small point, and unworthy of serious attention; but it is, nevertheless, upon such trifling circumstances that trade is built up and developed. London has not only holding power, in the financial field, but attracting power as well; and there does not seem to be any great chance of New York seriously competing with London for South Americn banking business for years to come—that is, until the United States is able to enter the foreign investment market, after having satisfied home demands.

Those Americans, therefore, who have been so sanguine that New York will have displaced London as the financial centre of the world at the close of the war, have not surveyed, carefully, or understood, the facts in the case. New York, it is true, in recent years, has made small loans to China and Japan; and considerable American capital has been invested in Canada. Nevertheless, the United States will have a very serious situation itself to face during the course of the war, as far as finances are concerned. During the next eighteen months the Republic must find $750,000,000 to refund maturing obligations—mostly industrial and railroad bonds and short-time notes. Then, again, to that must be added a sum of at least $450,000,000, for the eighteen months' period, as the United States normally receives from Europe, for investment purposes, about $300,000,000 a year. When one recalls the very great difficulties which one of the richest cities in the United States had to meet in securing $40,000,000 to discharge obligations to English creditors at the outbreak of the war, it will be seen how absurd are the contentions of a certain section of the American press and people that New York can, or will, displace London as the world's banking and investment centre after the war. No doubt in the years to come, when the home market has become saturated with capital, the United States, as the wealthiest single nation in the world, will have a great role to play in the field of foreign investments. At the present time, however, the Republic will have more than it can do to look after its home requirements, without venturing to take the place of either Great Britain or Germany in financing, and thus securing, the trade of the South American Republics, and the other developing nations of the world.

IV.

Canada's Financial Position and the War.

We may now briefly review the financial situation in Canada since the outbreak of the war, and the probable trend of events for the next few years in this country. Up to the outbreak of war Canada had borrowed about $3,000,000,000 in Europe and the United States chiefly, of which the United Kingdom furnished at least $2,500,000,000. The balance came from the United States, France, Germany, Holland, Belgium and Switzerland. Our interest obligations as a nation ranged between $10,000,000 and $12,000,000 a month, or somewhere between $120,000,000 and $144,000,000 a year. The Hon. W. T. White estimates that our interest obligations per annum are at least $135,000,000; while Sir Frederick Williams-Taylor, General Manager of the Bank of Montreal, puts the amount at about $10,000,000 a month. Whatever the precise sum may be, however, the fact is clear that this country has been faced with a serious situation during the last few months.

At the same time, nevertheless, it must be admitted that this difficult problem has been admirably handled, both by the banks and by the Government. Those pessimists and critics who have arraigned the banks, the Government, and the vested interests, because of the methods that have been adopted, do not realize that the financial situation might have been very much more serious. Indeed, when we contrast Canada's position with that of Brazil and the Argentine Republic, we shall see how fortunate the country has really been. As has been said, the banks both of Brazil and the Argentine, at the outbreak of the war, closed their doors; and even when they resumed business, depositors could withdraw only a stated amount of their funds each month. Even under these conditions balances could be withdrawn only after proving that it was essential to protect the business interests of the depositor. In addition, moratoria were declared by both these South American Republics; and specie payments were suspended. Canada, it is true, suspended specie payments; but not a bank closed its doors on account of the war; and no general moratorium was declared. This last is an important point; as in our judgment it has very materially strengthened the future credit of Canada in the money markets of the world. It may be said in passing, that the Bank of Vancouver, which has now gone into liquidation, was not forced into that position by the war, but because of other reasons. On the whole, it is rather unfortunate that several Canadian Provinces—including Ontario, Manitoba, Saskatchewan, Alberta and British Columbia—have adopted more or less modified moratoria. Undoubtedly, some help had to be extended to honest debtors, who had become embarrassed because of the war; but it is doubtful whether the adoption of moratoria was the best way to meet these difficulties. It should be kept in mind by the Provinces that they are legislating not only for the present, but for the future as well; and that every care should be taken to see that their credit shall remain unimpaired. On the whole, however, when it is recalled that almost every nation in the world, belligerent as well as neutral, has declared a moratorium in some form or other, it must be admitted that Canadian expedients have been very moderate indeed.

The Minister of Finance has announced that it will take at least $300,000,000 to finance this country during the coming year. For the financial year ending March 31, 1915, it is estimated that our national debt will be increased by $110,-000,000. During the financial year 1915-1916, we shall be obliged to borrow over $100,000,000 for war purposes. Thus in the two financial years, 1914-16, the national debt will likely be increased by well over $250,000,000. The old sources of revenue will yield $120,000,000; and new taxation is expected to provide $30,000,000, leaving a balance of $150,000,000 to be financed by borrowing. Where is this immense sum of money to come from? In part, no doubt, the Canadian people themselves may be trusted to furnish this capital to the Government. Savings deposits are piling up in the banks, while current loans are declining. At the present time there is an abundant supply of working capital, at least, in Canada, as distinct from investment capital. Temporarily, some of this working capital which is now unemployed might be well invested in Government debentures that can be sold when the money markets of the world are more favorable. It is doubtful, however, whether Canada has $100,000,000 of investment capital to put in her own Government securities; and the United Kingdom must be depended upon in large part to furnish the funds to finance this country during the course of the war.

For the next few years our municipalities and industries will be obliged to look to the home market, and to the United States, for capital. For one thing the London market is closed at the present time to all but war loans. English investors, too, have turned against our industrials, particularly during the last year, because of their disappointment in the management and the earnings of Canadian concerns. Old Country capitalists, also, have become distrustful of the financial administration, and the undertakings, of many Canadian municipalities. Aside from war conditions, therefore, we could not hope just now to successfully place large amounts of municipal securities in London. It has become necessary, as a result, for Canada to turn to the United States, particularly to New York and Chicago, to find the money to finance its industries and municipalities. Since the outbreak of war, and up to March 15, about $65,000,000 of municipal securities have been sold in the United States. This is explained in part by the fact that there has been a surplus of working capital in the Republic during these months owing to the slowing down of industry; and in part by the fact that American insurance companies, doing business in Canada, have taken up these bonds at attractive prices. But it will be in vain to hope for any substantial flow of capital from the United States for years to come. We may, and probably shall, receive considerable sums for industrial and municipal development; but the amount of capital that will come to this country from the Republic will be relatively small, compared with what we have received from the United Kingdom in the past decade.

Fortunately, the war has made it possible for Canada to cut down its imports; and thus to close the gap between imports and exports. We may, indeed, expect that our sales and imports will just about balance one another, in the immediate future, for a considerable period, owing to the effort that is being put forth to increase production in this country, and to the decline in buying power due to the cutting off of outside loans. This, however, has brought us face to face with another difficulty. As we have remarked, no country actually imports gold when it borrows, but really draws against credit balances to purchase goods from abroad. As we have now no balances against which to draw, there has been a tremendous decline in imports, and a corresponding loss of customs revenue. In this sense it may be truly said that the taxes laid by the Finance Minister are war taxes. If there had been no war it is quite true that there would have been a great falling off in revenue; but the deficit would have been made good by borrowing, which would have involved only a small increase in taxation, or perhaps no increase at all. But owing to the war, it has become necessary to raise huge sums for military purposes, thus obliging the Government to lay fresh taxation to meet deficiencies in the revenue account.

Limits of space will not permit us to give a detailed exposition of all the expedients adopted in Canada to solve the financial and industrial problems raised by the war. However, one fact seems to have been made abundantly clear during these difficult months. The United Kingdom has shown that it possesses enormous financial power, and that it is determined to look after not only its own interests, but the financial needs of its Colonies as well. From a survey of the whole situation, it is evident that Canada must move slowly in its economic expansion during the immediate future. But when peace shall have been declared it is quite safe to say that once again all the capital necessary for development work in this country will be secured from Great Britain.

Some critics have ventured to ridicule Sir Wilfrid Laurier's assertion that the Twentieth Century belongs to Canada. In the sense that this country will be able to offer opportunities to every man who is able and willing to work, and who will be a producer and not a mere speculator, Sir Wilfrid's contention is absolutely correct. There is no nation in the world that offers to the average man greater scope or opportunity for success in commerce, industry, agriculture, or finance, than does Canada; and bearing these facts in mind it behooves

Canadians, both individually and collectively, to stop talking about hard times and to get down to real business. And there is no great need to make any radical change by diverting the people from city or town to the land. What we need, and must have, is a return to normal business conditions; in which manufacturer, merchant and farmer, all together, will play their part. And finally, it may be worth while adding that there is need in this country for a greater display of a spirit of co-operation and mutual sympathy among all classes, and less for party and class recrimination and partisanship.

W. W. SWANSON.