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Queen's University

ECONOMICS BULLETIN

Economic Aspects of the War

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I.

FINANCING THE WAR.

A. The Problem.

(1) Will Financial Exhaustion end the War. . .

A month after the outbreak of war, Lloyd-George ventured the prediction that the last one hundred million pounds would win the war,, confident of course as he was that John Bull's bottomless purse would be the deciding factor. Somewhat later, Lord Kitchener paid his tribute to financial power when he gave it a coordinate place in that great triumvirate of 'men, money and munitions,' which was to lead us 'through terror to triumph.' Other men have gone further. A stalemate from the military point of view, the war, they say, will end solely as the result of the financial exhaustion of Germany, or indeed of all Europe. A glance at history, however, should give such financial prophets pause. The other great wars of modern times seem to show that seldom, if ever, has actual want of money or financial distress brought war to an end. The financial affairs of France at the beginning of the Revolutionary period, could scarcely have been more wretched; yet she emerged from 25 years' of struggle with a national debt many times smaller than that with which she began the war. Of course she had committed bankruptcy in the meantime, but the investor's memory proved unexpectedly short. In 1861 New York bankers predicted financial ruin when Lincoln's Government found difficulty in borrowing a few millions from Wall Street at 7%; yet in the next four years that same Government found $3,000,000,000 for financing military and naval operations. The study of the first two Balkan wars, of the Boer experience in South Africa, and of the long-continued Mexican chaos would seem to teach the same lesson. "It is apparently the teaching of such (military) history," says a shrewd observer, "that Governments can fight on, often against seemingly overwhelming military odds. long after the puzzle has become inscrutable, where they could raise money to carry on the war, how they could maintain their home and foreign credit, and by what means they could continue to feed both their non-combatant population and their armies." Or to quote a recent monograph,* "Generations of economists and statisticians have speculated on the limits of taxable capacity and borrowing power in various countries. Their calculations are all very entertaining to look back upon—they have been so completely falsified by events. If they could revisit the scene of their ingenious labors they would stand aghast at the moun-

*W. R. Lawson, British War Finance, 1914-15.

tains of national debt which are being comfortably carried by Great Britain, notwithstanding their century-old declarations that it was impossible." Indeed the year-old declarations of modern statisticians, of even the most pessimistic—or optimistic — of them, stretching to then incredible lengths the limits of fiscal endurance have likewise been reduced to almost antiquarian interest by sixteen months of warfare on the heroic scale.

It would seem therefore that financial exhaustion, as distinct from economic exhaustion (which means either an inability to provide the actual material goods and services necessary to carry on the war in an effective manner, or such a depletion of the resources of the non-combatant population that popular revolt will compel the Government to sue for peace) is not in itself sufficient to beat a belligerent state whose Government has a printing-press and whose people, in confident assurance of victory regard all suffering as the price which must willingly be paid for the attainment of some great national purpose. So long as a nation fighting for its life can furnish men enough. can raise enough food and raw material, can manufacture sufficient guns, munitions, and clothing, and maintain his transport facilities to keep his armies going, so long will the war last in spite of financial formulas. Failures in any of these vital points means defeat—but not by financial exhaustion. A change in national psychology, a refusal to give goods and services in exchange for credit may also bring difficulty, but this is popular revolt. The psychological factor is always extremely important. Thus far in the present conflict, however, we have had no evidence to justify the hope of such a revolution in national psychology. But to deny the all-importance of finance is not to belittle the really great part that an effective financial mobilisation may play in assisting the armies in the field, nor to forget the difficulties and the chaos which unsound financial arrangements may cause both during the struggle and in the subsequent period of readjustment. So closely knit and interdependent are the various factors, financial, military, economic, that a hitch in one sphere affects the other spheres as well: not only that, but the effect is cumulative. Thus a setback from the military point of view weakens national credit and makes it more difficult to secure finances: this hampers the country's efforts in providing its armies with food and materials: and this in turn still further increases the military difficulties. So the round begins once more, the initial influence accumulating strength at every turn. Man power, productive (or enconomic) power, brain power, organizing power, and money power will all contribute to the final result of the present world struggle. Anyone of the first four is vital and might in itself be the efficient cause of defeat to either side. Finance is but an artificial aid to production and exchange, it facilitates the smooth and efficient working of the other factors; nevertheless it is an aid, and in a contest of endurance into which the present conflict has resolved itself, it is an extremely important aid. With this in mind then, we will seek in this study to trace the various stages in the financial mobilisation of the different countries, to compare the methods of financing the war adopted by the chief belligerents, and so far as possible, to draw conclusions as to the relative soundness of the present financial position of these nations.

(2) Sources of War Expenditure.

A few words of introduction are necessary as to the general methods of war finance. And first of all we should discriminate between how, on the one hand, wars are actually paid for by the people, and how on the other they are financed by the Government.

There are three sources, and three only, from which a people may meet its war expenditure. In the first place, it may pay for it out of its national income, which consists of its current annual output or production of wealth in the form of consumable commodities or services of any kind, its earnings from other countries for services rendered to them (such as freight charges, bankers' commissions and insurance premiums), and interest and dividends on its investments in foreign countries. In order to get the net national income, a deduction from this total should be made for payments to other countries for services rendered and interest on money loaned. In war-time it is probable that the national income does not attain the ordinary peace level. There is the possibility that the revenue from foreign investments will be curtailed through the suspension of dealings with enemy citizens and through the impairment of the capacity of allied or neutral debtor nations to pay the interest on their debts. The earnings for services rendered to other countries may be affected favorably by a higher charge for the services as a result of a quasi-monopoly, or adversely by a decrease of demand for such services and inability to perform them through preoccupation with military duties. Again the annual output of consumable goods may be decreased by the diversion of a large percentage of the population to military services, through disturbances in the organization of labor, and the general derangement of the organization of industry and production.

To what extent and in what way may the War Lords draw upon this net national income? In peace times it is used in three ways:—(1) to meet the current living expenses of the nation, including both luxuries and necessaries; (2) to maintain and improve the national plant and equipment (factories, machinery, railways, canals, roads, &c.); and (3) for foreign investment. It is clear that in war time, the capital reserved for foreign investment may be diverted to the war exchequer, though even here we shall later find that caution is necessary. Again what may be spoken of as the national betterments fund may be wholly, or almost wholly, starved for the purposes of war. Finally it is possible to reduce considerably the current living expenditure of the nation. A glance at the table given below enables one to draw a rough comparison between the incomes of the chief belligerent states. The United Kingdom holds the premier place, in spite of her relatively small size and population, with an income in the neighborhood of 11 billion dollars, not to speak of the additional 7½ billions roughly estimated for the rest of the Empire. Germany's larger area, more numerous population, and splendid organizing genius, put her in the second place with an income estimated at something over 10 billions. France has an income of 6 billions, and Russia of over 7 billions, while the current output of Germany's chief ally may be set down as nearly 4½ billions. Turning to foreign investments we note that Great Britain has four times, and France nearly double the amount of capital

Table I.

	Area Sq. Miles	Population 1913 Millions	Foreign Trade 1912 Millions	National Wealth 1913 Millions	National Income 1913 Millions	Annual Savings Millions
United Kingdom	121,391	46	$ 6,532	$ 87,000	$11,000	$ 2,000
Rest of British Empie	13,032,321	403	2,916	43,000	7,500	
Total British Empire..	13,153,712	449	9,448	130,000	18,500	
France	207,054	40	2,832	63,000	7,500	1,250
Russia	8,647,657	170	1,209	60,000	7,000	1,250
Italy	110,623	35	1,177	35,000	4,000	625
Belgium	11,373	8	1,730	12,000	1,400	300
Serbia	34,000	4	38	4,000	350	
Japan	110,623	52	583			
Montenegro	5,650	0.5	2			
Entente Countries	22,280,592	758.5	16,819	304,000	38,750	5,425
Germany	208,740	68	5,166	80,000	10,000	1,750
Austria-Hungary	260,034	50	1,283	45,000	5,000	1,000
Turkey	710,224	24	233	8,750	1,000	150
Bulgaria	43,000	4	73			
	1,221,998	146	6,755	133,750	16,000	2,800

invested by Germany in foreign countries The interest payments should vary in about the same proportions.

The second source from which a nation may pay for a war is its national capital or the aggregate of its accumulated wealth. At any time this aggregate which depends on the extent of territory, the abundance of natural resources, the size of the population, and the industry, inventiveness, and thrift of the people, will consist of (1) its fixed assets, not only the land and resources given by nature, but also the concrete capital goods made by man, buildings, machinery, railways, roads, canals, etc., (2) its circulating capital, stocks of raw material and manufactured articles, live stock, gold and silver coin or bullion, and (3) debts owing to it by foreign nations. From the latter must be deducted debts due to other nations.

If then the current income of the nation does not suffice to keep the war-chest full, the country may draw on its accumulated wealth in one of five ways. In the first place it may divert part of its fund of capital goods directly to war purposes. Of course it is foolish to think that the United Kingdom can carry on the war indefinitely because it has 87 billion dollars worth of capital wealth. Most of this is fitted only for peace purposes, and only a relatively small part of it (stores of food, clothing, metals, leather and other raw materials, and certain kinds of finished goods), is of such a nature as to permit of direct military use. Again inadequate or indeed no provision at all, may be made for the depreciation of fixed assets, factories, machinery, railways, &c., and the extent to which the capital value of such assets is found to be impaired at the end of the war represents another payment out of capital. These two methods only are open to a nation, which like Germany at present, is practically cut off from intercourse with the outside world. Other nations, not so cut off, may sell abroad the securities held by them in foreign railways or industrial corporations, and thus secure unspecialised purchasing power which they can direct to military channels. Or they may have recourse to the direct sale to foreigners of their capital goods. Thus they may very well sell such things as works of art, jewellery, and especially gold and silver bullion. As for other capital goods, chiefly immoveable, like land, houses, factories, &c., they can become available to prosecute the war only by being mortgaged. Private individuals, if they can, may for instance sell domestic railway or industrial shares in neutral countries, and turn the proceeds over to the Government either in the form of taxes or subscriptions to Government loans. At the end of the war, neutrals would have title to a part of the nation's capital.

Estimates of the national capital of the principal belligerents are given in the table above, and a reference to it at this point will serve to fix in mind their relative positions from this point of view. The United Kingdom again comes first with an estimated capital of 87 billion dollars, followed in order by Germany with 80 billions, France with 63 billions, Russia with 60 billions, and Austria-Hungary with something like 45 billions.

The third and final method of paying for a war is for the Government to borrow in a neutral or allied country. In this case the Government sells its bonds to foreign investors, the loan being guaranteed not by the pledge of any specific capital goods, but by the national credit of the borrowing country. This method has been followed to some extent in all recent wars, including the present war, but the world-wide character of the present conflict leaves only one important neutral nation, the United States, free to take up such belligerent loans.

(3) Methods of War Finance.

A question of less fundamental importance than that of the sources of war expenditure is how are these sources tapped. By what devices, by what financial expedients can a Government raise the money with which to finance the war? In olden times it was a relatively simple matter. The king accumulated a treasure of gold, and if this proved insufficient he bargained for gold with a merchant prince or private banker. The lender ran heavy risks of losing his money through the king's inability or unwillingness to pay. Indeed kingly repudiation of debts by cutting off the heads of creditors was not unknown. The result of such risks was usurious rates of interest. But with the development of the modern banking system came the Stock Exchange, the Money Market, the bank of discount and the great reservoirs into which the savings of the people are collected for investment. All these institutions tend to facilitate the buying and selling of credit, the mobilisation of which commodity is the chief concern of the financier of a modern war.

Setting aside confiscation as no longer being openly and directly practised, we may distinguish three methods of financing a war, (1) taxation, (2) extension of the currency, and (3) borrowing.

Taxation is of course not a new method. The general desirability of paying for some part of the expenditure by increased taxes during the course of the war is unquestioned. Not only is it easier to make such compulsory levies on current income when the patriotic fever is at its height, but it also keeps high the national credit, enables the Government to borrow on more favorable terms, and prevents the over-mortgaging of the future. The heavier share of the burden is borne by the generation responsible for the war, and presumably the generation that derives the greatest benefit from it. The ability to pass the excessive burden on to one's grandchildren, and the habit of doing so, remove one of the salutary checks to war. But to what extent can taxation be used? Theoretically if the war can be paid for out of current national income, the Government could raise all the money required through current taxes. But this measure of confiscation would be intensely unpopular, and moreover, it would be extremely difficult to levy such taxes during the course of the war with equity and justice. So taxation is never the sole reliance of a Minister charged with the administration of a great war.

Another recourse is the extension of the country's paper currency. We recall the assignats issued by France in the Revolutionary period, the Continental notes of the American Revolution, and the inconvertible paper money issued by both sides in the U.S. Civil War. The procedure is a very simple one. The Government merely sets its printing presses to work, strikes off 'paper promises to pay' to the required amount, and by making them legal tender for all debts forces them into domestic circulation. You have, therefore, a forced loan bearing no interest, and a loan proportionate to income. It therefore bears more heavily on the poor, and its economic results are apt to be disastrous. It usually involves an abandonment of the gold standard, the depreciation of the currency, and a general rise in prices. An increase in circulating credit or bank deposits may lead to an inflation of the currency in the same way as the issue of notes. Thus to quote Prof. Pigou:—"When a Government issues an internal loan under modern conditions, a considerable proportion of the subscriptions to it are likely to be financed by means of new bank money specially created for the purpose. The banks will both subscribe large sums themselves by creating deposits in favour of the Government, and also lend large sums to private persons who wish to subscribe. In so far as these issues of bank money merely take the place of issues which, apart from the war, would have been made to finance private business, there is no inflation of currency. But, in so far as they exceed this amount, and the effect of the excess is not cancelled by a diminution in the rapidity of the circulation of bank money, there is inflation. Let us suppose this inflation is ten per cent. The general prices rise to that extent, every sovereign in the hands of the public gives command over ten per cent. less real income than before, and one-eleventh of the aggregate real income of the country is forcibly transferred to the Government." In considering the extent of the depreciation however, it is well to note that a war probably increases the internal currency requirements of the country, because of the almost universal tendency to hoard gold, and the enormous increase in cash transactions due to Government purchases and the general uncertainty produced by war. Such being the case it is quite possible for a Government, which enjoys the full confidence of its subjects, to raise a sum equivalent to this increased demand for currency without falling into the slough of depreciation. On the whole, however, the dangers of this method of financing a war far outweigh its simplicity and cheapness, and a solvent Government should face the risk only as a measure of last resort.

The final general method by which a Government may tap the sources of war expenditure is to raise loans either at home or abroad. Domestic loans may take the form either of short-time bills or of long-term bonds. In the former case the Government merely sells credit instruments running usually for 3, 6 or 12 months, the funds coming wholly from the banks, who especially in the first stages of a war are apt to have a considerable surplus of floating capital available and who are averse to locking it up in the ordinary ways. But there is always a limit to the amount of such short-term issues the market can absorb, and sooner or later such temporary expedients must be converted into long-term obligations. In the case of these long-term bonds, the Government borrows the money for a long period of years, agreeing to repay the principal at the end of the period, and in the meanwhile paying only the annual interest. Usually it is possible at the end of the term to renew the loan, or even before that time to refund it into obligations bearing a lower rate of interest. Is there any limit to the creation of such indebtedness? If the borrowing is done within the country, it would seem that if the Government can retain the unquestioned confidence of the people the limit is set only by the people's power to lend. But this question will be discussed more fully when we consider some of the expedients adopted by the belligerent countries.

Foreign borrowing which may take either the form of short-time credits designed chiefly to facilitate international trading operations, or long-term bonds, has its limits set not only by the number and wealth of foreign powers able to lend but by the confidence imposed by them in the credit of the borrowing country, in its ability ultimately to pay its debts.

Having considered the various methods by which a war may be financed, let us turn to the problems which have confronted the different nations since August, 1914, and see what financial expedients were adopted, how far reliance was placed on each of these three methods.

B. Financing the Entente Allies.

(1) The United Kingdom.

The financial methods of Great Britain call for consideration first, not only because of the country's importance among the belligerents, but also because she has followed most closely what are generally considered to be the sound principles of finance. Finance is England's forte, and as in the Napoleonic days, she has had to act in this struggle as the banker, the purse-carrier, and the credit mainstay of all anti-German Europe. Her own direct expenditure has mounted to heights never before dreamed of, and on top of these her loans to the Allies have reached, to use Mr. Asquith's words, "gigantic and startling figures." The impression she has always given of almost inexhaustible wealth is dangerous, and it is only recently that there has come a realization that war demands, not so much the accumulation of fixed capital, as immediately realizable wealth. Only if England's enormous resources can be made liquid, can they be diverted to military channels. With this realization has come a movement for the mobilisation of money, as well as the mobilisation of men and of munitions.

The demoralisation of the London Money Market and the utter breakdown of the world's financial and credit mechanism which accompanied the outbreak of Armageddon in July, 1914, have already been described in an earlier Bulletin in this course.* As, moreover, the steps which were taken by the Government and Banks to enable the machinery to function properly once more (the bold policy of the Bank of England, its opening of gold depositories in Ottawa and Johannesburg, the suspension of the Bank Act which was not taken advantage of, the issue of Currency notes, the declaration of a general moratorium, the closing of the stock exchange, the offer of the Bank of England to carry loans made on the Stock Exchange till after the war, and the discounting by the Bank of England under Government guarantee of pre-moratorium bills held by the joint-stock banks and the discount houses, etc.) were there set forth in considerable detail, we shall not consider them in this study, though references will be made to some of them later on.

Britain's Burden.

Before considering the actual methods by which the British Treasury has financed the war, we should investigate the magnitude of the burden that has had to be borne. What has the war cost the United Kingdom? A definition of war cost is first necessary. Eighteen months of the Great War have driven home this fact, that the real cost of a war is not the money outlays, but the goods that are consumed and the services that are employed in prosecuting the war, not the specie and paper counters which only facilitate the transfer of goods and services, but those goods and services which soldiers,

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*See Dr. Swanson's Financial Power of the Empire.

munition workers, transport workers, and others diverted by the war from their normal occupations would have produced if the war had not occurred. Note that it is not the goods and services that are actually used up in the war, but those which would have been forthcoming if the war-workers had remained in their peaceful employments. But for all practical purposes these may be considered equivalent in value, and it is only the money value of the former, as expressed in the direct expenditure of the Government, that we will consider. Further because of the wide margin of error involved, it has not been thought best to attempt to estimate the loss involved in the destruction of property, nor, what is perhaps the most important of all, because irrecoverable, the loss of human life.

On Nov. 10, 1915, Premier Asquith asked for a Vote of Credit for the unprecedented sum of $1,948,000,000. This was expected to last to the middle of February, and brought the total thus voted by Parliament to considerably over 8 billion dollars. Yet certain allowances must be made before we obtain the true military expenditure. On the basis of the best figures available, this true cost of the war may be estimated at $8,533,000,000 until the end of March, 1916. Of this total $1,754,000,000 was spent in the financial year, 1914-15 (ending March 31st), and the remainder, or slightly over 6¾ billions, will measure the burden for the current financial year. The "remarkable progressive increase" in the cost of the war and the items responsible for the increase may best be shown by a summary of the average daily expenditures at different periods:—

	Army & Navy	External Loans	Miscellaneous	Total
First 240 days (to Mar. 31, 1915)	$ 5.69	$1.07	$0.48	$ 7.24
Next 220 days (to Nov. 6, 1915)	10.38	3.87	1.13	15.38
Next 145 days (to Mar. 31, 1916)	11.98	8.32	1.36	21.66

The figures are in millions of dollars. Ordinary peace expenditure on the Army and Navy (nearly $400,000,000 annually) is of course excluded. The item "Miscellaneous" includes chiefly expenditures on food supplies and pre-moratorium bills, which are expected to be paid back to the Government, and in addition certain expenses in connection with the railways. The enormous increase in average daily cost is chiefly due to purchases of munitions, and, to loans to the Dominions and the Allies, which by the way have risen from 19% of the expenditure on the Army and Navy in the first period to about 70% at the present time. This increase in loans is one result of the greater coordination of the forces and resources of the Entente Powers which was ushered in by the famous Paris Conference in the Spring of 1915. Under the new division of labor, England will have provided by the end of March over $2,400,000,000 to assist her Dominions and her Allies, especially Russia (for purchasing in England and elsewhere outside Russia), France for purchases in England), Italy, Belgium and Servia. This bill is much more than twice as heavy as that Germany has had to pay for similar services, and is enough to train, equip, and keep in the field 3,000,000 soldiers. Of course this item does not constitute dead-weight debt for England: it represents merely loans which will probably, at least in large part, be paid back some day. But for the time being at least, it is a demand which must be met out of England's present resources. In 20 months of war, therefore, John Bull has had to raise over 8½ billions of dollars; or to put it in another way he is now "shooting silver bullets" at a rate of $15,000 a minute. How has the money been raised?

Reliance on Taxation.

Of all the belligerent nations, the United Kingdom is the only one which has been courageous enough to pay for any considerable part of the war expenditure by increased taxation. This policy was adopted from the first. In order to live up to the best traditions in British finance, to maintain British credit, to take advantage of "the time of sacrifice in nations," and to avoid overburdening the post-bellum period, always a time of crisis and criticism, and of depressed purchasing power, Lloyd-George , in his first war budget speech of Nov. 17, 1914, laid it down as the minimum requirement that increased taxation should make up for the loss of revenue due to the war and in addition pay the interest on the money borrowed for the war. Fortunately for England her ordinary revenues did not show anything like the deficiency experienced by the protective countries, Germany, Austria-Hungary, France, &c. Thanks to her free trade system, the loss in revenue was less than $73,000,000. The scheme for increased taxation propsed by the chancellor was to be commended for its simplicity, its lack of novelty, and its capacity to produce revenue without unduly hampering trade. That the whole nation might make a substantial contribution, the duties on beer and tea were raised, the former by 7s 9d to 25s per bbl., and the latter from 5d to 8 per lb. Further that wealth might bear its fair share, the income-tax and the super-tax were to be doubled by what at that time seemed a mighty stroke. The new taxes brought in a revenue of $127,000,000 in the last four months of 1914-15.

In the Spring of 1915 the Chancellor, in his celebrated indictment of the liquor traffic, proposed to increase heavily the taxes on beer, wine, and spirits, but in the face of a formidable opposition he had to withdraw these proposals, securing only the establishment of a Liquor Control Board with restrictive powers in certain areas. On the fourth of May he delivered his second War Budget which proved, however, to be but a budget of words. Though everybody had been expecting new increases in taxation and the leading financial papers had been prognosticating as to the form these would take, the Chancellor considered that until the outlook as to the probable duration of the war became a little less clouded, it would be premature to overhaul the existing scheme of taxation, and contented himself with a little harmless readjustment of the taxation of insurance policies and a sort of interim review of England's financial resources and prospects. The tax payer, reading the summaries of the Chancellor's speech would experience, thought one of the great dailies, "something of the sensation of the man who climbing steep stairs in the dark lifts his foot for a final big ascent and brings it down upon the level of the landing."

It was left for Mr. Lloyd-George's successor to do the overhauling and attempt to adjust the British fiscal system to an expenditure of 7¾ billion dollars and a deficit of 6¼ billions. The financial daring and courageous imagination needed by the present Chancellor of the Exchequer can best be seen by tracing the history of successive budgets from 1913-14 when revenue and expenditure balanced at 964 million dollars, to 1914-15 when revenue fell 1,627 millions short of an expenditure of 2,372 millions, and finally to 1915-16, when deficit and expenditure are respectively 6,258 millions and 7,743 millions. If expenditure and revenue continue for another year on the present basis, the revenue will fall over 7 billions short of an expenditure nearly 10 times as great as the normal budget requirements. Mr. McKenna tackled the problem with courage and resource. His budget speech of Sept. 21 was "a plain, unvarnished statement of an unparalleled revenue, an inconceivable expenditure, and an unimaginable deficit, followed by a list of fresh taxation which imposed, as he said, an unprecedented burden on the country." Forty per cent. was added to the income-tax, and the exemption limit was reduced from £160 to £130,—a broadening of the income-tax-paying citizenship which is to be commended quite as much on political as on financial grounds. The supertax on incomes between £3000 and £8000 was left unchanged but for higher incomes, increased from 6 to 30%. The result of these increases is to take 20% of a man's income, if it amounts to £5000; 25% if it is £10,000; and 34% if it is £100,000. A tax of 50%, designed to bring in $145,000,000, was levied on war profits. Of indirect taxes, there was a 50% increase in the existing duties on tea, tobacco, cocoa, coffee, chicory, and dried fruits; an increase of 3d per gallon on motor spirit; and a half-penny increase in the duty on sugar. Further in addition to several increases in the postal and telegraph charges, and in other minor items, a new 33 1/3% ad valorem duty was to be levied on imports of motor-cars and cycles, kinema films, clocks, watches, musical instruments, plate glass, and hats. The import duties came in for the most severe criticism, as an inexcusable surrender to Tariff Reformers in the Cabinet. As a whole the budget, though commended for its resolute avoidance of "fancy" taxes, was condemned not only as belated, but as cruel and inadequate—belated in that but a small portion of its results would be available this year, cruel because of its insufficient burdening of the rich, inadequate as an instrument for achieving its double object of enforcing private economy and meeting public expenditure. Some 150 million dollars was expected to be the yield of the new taxes in the current year,—"a tea-cupful of new taxes to be set against a bucketful of new expenditure." But altogether Mr. Lloyd-George's and Mr. McKenna's war taxes will by the end of March, 1916, have produced a revenue of $648,000,000. This is over 8% of the actual military expenditure, is a substantial buttress to British credit, and is more than enough to pay the interest on the war debt and provide for a sinking fund. It is, moreover, infinitely more than any of the other belligerents have dared to do in the way of meeting their war expenditure out of current taxation.

Inflation of the Currency.

It is a disputed point to what extent there has been inflation of credit and currency in England. The note issue of the Bank of England has been increased by only $27,901,000, it is true, but the new currency notes must also be taken into consideration. These latter it will be remembered were issued as an emergency currency in the initial crisis of Aug., 1914. When the public showed a tendency to hoard gold and small currency became scarce, the joint-stock banks left the provision of the gold to the Bank of England, paying their customers in the latter's notes and advising them to cash the notes in Threadneedle Street. The £5 Bank of England notes were of course found to be of altogether too large a denomination to meet the currency famine, so the Treasury stepped in, and on Aug. 6, authorized the issue of £1 and 10s notes. No satisfactory answer has ever been given to the question why the new notes were made a Government issue rather than Bank of England paper. They were declared unrestricted legal tender, and could be redeemed in gold on demand, but only at the head office of the Bank of England which was merely acting as the Government's agent. In the first instance, the currency notes were issued in the form of advances or loans to bankers who had the right to borrow at the Bank rate (5%) up to 20% of their deposits. This would have allowed a maximum issue of nearly 1100 millions. As a matter of fact, however, only some 63 millions were taken out by the banks, and even these loans were soon paid off by transferring credits at the Bank of England from their own names to the Public Deposits. The notes which had got into the hands of the public remained nevertheless in circulation, and, moreover, ever since September, 1914, the notes outstanding have been constantly inceasing, the banks now taking out the notes to meet the public demand, not as a loan from the Government, but by paying for them directly by means of a draft on their balances at the Bank of England. Issued as an emergency currency to remedy the hoarding of gold, the currency notes have remained and are now defended in the face of adverse exchanges as a means of mobilising our gold supply and maintaining a central gold reserve large enough to guarantee the gold standard. On Dec. 15, 1915, the amount of notes outstanding was $485.724.000, but against this amount the Government has "earmarked" at the Bank of England a stock of gold to the value of $142,500.000. The difference, or $343,-200,000 represents of course a loan from the public to the Government, without interest,—a relatively small amount if we consider what the other belligerents have done. Further, though these notes have been connected by some with the 40% rise in prices in England, it is very doubtful whether such a connection can be traced, when we remember the amount of gold held against the notes, the amount of gold that has been withdrawn from circulation because of their issue, and the natural increase in the demand for money because of the greater volume of cash transactions which the war has brought.

It is probably true, however, that there has been some inflation, (relatively slight in England), because of the expansion in credit. We remember how, early in the war, the Bank of England took over some 350 or 400 million dollars of outstanding acceptances for the bill-brokers and private banks, and gave cash credit for them on its books. This transfer to the Bank of England of large amounts of securities, which were not to be paid off for some time, from the portfolios of the other banks, is a creation of money because Bank of England balances are reckoned as cash and as a suitable basis for other loans. The effect is therefore to render possible and to stimulate an increase of loans; but to what extent advantage was taken of this possibility of inflationism is not known. Certainly it was not important, and most of the bills guaranteed have since been paid off. On the other hand it is claimed by some that part of the first British loan was raised by credit inflation. The Bank of England it is true offered to lend up to the full issue price of the loan at 1% below Bank rate for a period of 3 years. This was a dangerous offer, for which there was no need, and it is pleasant to note that the offer has not been repeated in connection with the more recent loans. Between July 23, 1914 and Dec. 15, 1914, "Other deposits" at the Bank of England hand increased from 211 millions to 484 millions, and adding the increase in Public Deposits, we find a total increase of 470 millions. Between June 30, 1914, and June 30, 1915, the deposits of the Joint Stock Banks increased by nearly a billion dollars. On the latter date they were at record height, and this because of the Government's borrowings from the Joint Stock Banks and the Bank of England on account of the first War Loan. Such borrowings do not deplete bank deposits, but the expenditure of the money increases them. The higher deposits were balanced, on the other side of the account, by larger investments, and higher liquid resources, consisting especially of bigger balances at the Bank of England. Thus at the end of June last year, the Joint Stock Banks had control of the money supplies in the market, with no use for them, while the liabilities of the Bank of England were inflated by these huge deposits which in turn it had lent to the Government. In July, the new War Loan came to readjust the situation. Its immediate effect was to deplete deposits, and give control of money supplies to the Bank of England, the custodian of the Treasury balances. The subscriptions of the Joint Stock Banks themselves still further reduced their free balances. But these however did not much exceed the Government's borrowings from the Bank of England. But as this was soon repaid by the Government, which in addition took over unliquidated bills held in "cold storage" by the Bank, the bank subscriptions did not add much to the inflation of bank deposits produced by borrowing from the Bank of England.

Long-Time Borrowing.

But by far the preater part of England's war expenditure has been met by loaning operations of one kind or another. The first long-dated loan was offered in mid-November, 1914 for $1,705,000,000 (fully subscribed and netting $1,612,000,000).

It was a 3½% loan, redeemable 1925-28, and was issued at 95, so as to net the investor 4%. It was primarily a banker's loan and did not appeal to the small saver. The proceeds of the loan financed the bulk of war expenditure to the end of March, 1915. It was followed in July by the second great British loan, the largest in history up to that time. This was a $4\frac{1}{2}\%$ loan offered without limit at par and redeemable 1925-45. In order to offer a direct inducement to holders of the old securities to come in on the new loan, and to offer an assurance that subscribers to all Government loans would be protected against more favorable offerings later in the war, it provided that holders of old Government securities bearing lower rates could exchange for the new $4\frac{1}{2}\%$'s provided they doubled their investment. The $3\frac{1}{2}\%$'s were changed at par, $2\frac{1}{2}\%$ consols at 66 2/3 (thus yielding 3%) and so on. Further ample provision was made to enable the small investor to participate in the loan, by issuing it through the post offices in denominations of £5, and also by issuing 5s, 10s, and 20s vouchers applicable upon the bonds in denominations of £5. As a result, some $4,186,000,000 was subscribed of which however only $2,873,000,000 represented cash or new money, the rest being conversions of old stock. Perhaps about one-half of the pre-war funded debt in private hands was converted into the new higher-interest bearing loan. Further the base of our National Debt was broadened some ten- or twenty-fold, as separate investors, small and large, were attracted to the number of about 2 million.

Short-time Loans.

The two long-time loans therefore provided the Treasury with $4,485,000,000. This left a considerable, gap which had to be filled in by the issue of such short-term obligations as Treasury Bills and Exchequer Bonds. The issue of Treasury Bills,—an invention of Bagehot's—has been determined by the state of the money market, which, which by the way has passed through 3 phases: (1) Complete stagnation during the initial crisis, and an utter inability to get any money at all; old bills were continued simply because they could not be paid oft. (2) A condition in which money was superabundant in supply and cheap in price; due to the desire to keep cash in hand because of the uncertainty caused by the war, to the policy of the Bank in paying for its purchases in cash instead of creating bills, to the return of floating capital from all parts of the world; and to the falling off by at least 60% of the supply of ordinary bankers' and commercial bills; and (3) a phase ushered in by the July War loan in which the demand was sufficient to keep the rates for the money at a level profitable for the banks, the rate at times being artificially supported by the Government. In the second period then, and down to the issue of the first War Loan, the Exchequer financed all its war expenditure by means of these 3, 6 or 12 months' Treasury

Bills. The banks, in their existing state of timidity were only too glad to have their very large idle funds invested in such Government securities and so the Government was able to do its early financing at the very low rate of 3½%. So during nearly the whole of this period the Government continued at various times, to issue by tender, specifying the amount to be taken and the length of time the bills were to run. In Feb., money was secured for as low a rate as 1⅝%. In April a new departure was made; the Government announced that it was prepared to sell at the Bank of England, an unlimited amount of Treasuries of 3, 6, and 9 months' usance, the rates of discount being fixed daily by he Government and posted where all might see them in the front court of the Bank of England. This policy of continuous borrowing has proved remarkably successful; it is simple in form, is automatically adjusted to the needs of the market, and has insured a pretty large and even flow of money through the ordinary banking channels into the War Exchequer. The rapid disbursement of the funds by the Exchequer ensures that the resources of the banks undergo only a temporary depletion. Between the first of April and June 5, over 725 million dollars were obtained in this way at the extremely satisfactory rate of about 3⅝%. After the issue of the July War loan, the rates of course stiffened. Since Aug. 9, the rates have been from 4½ to 5⅝%, 5% being the ruling rate at present. It was offered with a view to improve the foreign exchanges and it is surely to be expected that foreign bankers will not be slow to take advantage of 5% return on a short-term British Government security. The amount of Treasury bills outstanding on Dec. 18, was the substantial total of $1,807,000,000. More money can evidently be got in the same way, but it should be remembered that there is a limit to the amount of such securities that can be absorbed by the money market, and that there is a danger in having too great a mass of floating indebtedness constantly requiring renewal.

A slightly longer term of 5 years characterizes the two issues of Exchequer bonds. In March, 1915, $243,000,000 was secured in this way at an average rate of 3⅞%. On Dec. 16, came the announcement of the new unlimited issue of 5% Exchequer bonds, issued at par and redeemable at par in 1920, and standing on an equality with the 4½% loan because exchangeable on a par basis into any future war loan. Its exemption from all present and future taxation is intended to attract foreign subscribers, while its low denominations (as low as £100) are meant to reach relatively small investors. As with the Treasury Bills, the Government is here adopting the policy of continuous borrowing (no limit of time being placed upon the issue), which has the advantage of obviating the sudden financial pressure and strain which are the inevitable accompaniments of the great War loans. Especially if some attempt is made to attract still smaller investors, there seems no reason why the war should not be financed for a considerable time by this method.

Foreign Loans.

But British credit has appealed to the foreign, as well as to the home investor. The great loan of $500,000,000 raised in New York, last October, on the joint and several guarantee of England and France will be described in detail in Part II of this bulletin. Suffice it to say here that it is redeemable at par in Oct., 1920, but by notice given before April, 1920, can be converted into 15-25 year joint and several 4½% bonds of the two Governments, redeemable at par. Underwritten at 96, it was offered to the public at 98, at which price it yields 5½. Its success was qualified, because the capacity of the New York market to absorb such loans was rather lower than expected. When the time limit had expired, only 60% of the issue had been taken off the hands of the underwriters, and the bonds are now selling in Wall Street on a 6% basis. To still further assist in the financing of Britain's imports from the U.S., a credit of $50,000,000 was granted in November by a syndicate of American bankers to a group of eight leading English banks. This credit is to be secured by the deposit of British Government bonds with the Bank of England, and extended in the form of acceptances, which will bear 4½% interest and run for 6 months. This extent of foreign borrowing compares favorably with the loan of $10,000,000 which Germany found difficulty in raising in New York last spring.

To sum up then, the actual proceeds of these different loans have amounted to nearly 7 billion dollars:—

1st War Loan	$1,612,000,000
2nd War Loan	2,873,000,000
Treasury Bills	1,807,000,000
Exchequer Bonds (1st issue only)	243,000,000
Anglo-French loan in U.S. (Britsh Share)	250,000,000
Banking credit in U.S.	50,000,000
	$6,835,000,000

Of this total, about 65% represents long-time indebtedness, and about 55% was taken by British banks.

Financing Imports.

Before considering the realities of the situation underlying this machinery of taxation and loans, it is necessary to see how England's financial task has been immensely aggravated by the circumstance that a very important percentage of her entire outlay has to be transmitted for payments abroad. A self-contained nation, which is able to produce enough to meet the barest wants of the civilian population and provide the necessary war supplies,—and so far the Teutonic Empires have given little or no indication that this was an impossibility for them—can go on almost indefinitely if the people are sufficiently docile, without worrying very much over the soundness of its currency or the state of its foreign exchanges. But a nation which must buy some of its vital supplies from abroad must pay for these supplies either by the export of goods, or gold or of securities, or by services rendered. If it cannot, it will soon become difficult or indeed impossible to buy from abroad; and the alternatives will be either submission or such a revolutionary adjustment of the industrial and economic system as will enable it to satisfy all its own essential wants. Our blockade policy has already forced this revolution upon Germany and Austria. On the other hand, England is still grappling with the difficulty presented by a war policy which is based not on self-sufficiency but upon unlimited purchases of munitions, food, and raw materials from abroad. England further has to finance not only her own purchases but those of her Allies, so that it has been justly said, that "like a pyramid resting on its apex, the external financial position of the Allies rests on the American exchange with this country. It is vital to all the Allies that every means should be used to maintain it.'"

The immensity of the problem is shown by the fact that the excess of England's imports over exports is now running at about 1600 millions dollars a year, the normal automatic corrective to such a situation being no longer active under conditions of enforced imports and restricted exports. But these figures do not include Government purchases which are very large, but whose amount can only be estimated, say 900 million dollars. Finally there is the very heavy item of loans to our Allies and Dominions for their purchases. As, however, some of this is for purchases in England, we may consider that 1,600 million dollars represent purchases abroad for the account of our friends. This means that England has to finance outlays abroad aggregating roughly 4,100 million dollars. How is it done? The return on our foreign investments of 20 billions has probably decreased by 12 or 15%, say to 875 millions. Our earnings from freight charges have increased enormously, perhaps doubled, and are now roughly 1000 millions. Our earnings from insurance premiums, bankers' commissions, tourist expenditure, &c., have declined to more than one-third of their former level, say to 125 million dollars. But even when all these offsets are included, there remains a deficit of over 2 billion dollars. This debit balance has been met so far by the credits raised in the U.S. by the sale of securities, and by the export of gold. In these different ways, England has succeeded in maintaining sterling exchange on a much better basis than the currencies of the other belligerents; though it did fall in August to $4.50 it has now recovered to $4.76. For the time being the remedies taken will be sufficient to maintain it about this level but it is patent that if imports and loans to Allies continue on the same basis, the only feasible remedy will be a tremendous increase in exports, effected by an increased production and enforced economy on the part of all classes.

The Financial Position.

This necessity for increased production and economy brings us back to the general consideration of England's task, of which the financing of foreign imports is but the gravest aspect. The mechanism of taxes and loans and paper currency is but "shuffling the cards for the real game which is to come." The real crux of the whole problem concerns "the economic conditions which lie behind the Chancellor's figures of account, viz, the balance of national production and consumption. What is absolutely essential, and after more than a year of war we have hardly begun upon it, is the reorganization of our whole economic life, consumption as well as production, upon a war basis. Production must be increased, or non-military consumption cut down, until there is a sufficient balance to meet the military expenditure." For after all what the war consumes is not money, but commodities and services; and financial expedients, whether "made in Germany" or not, avail not at all to enable us to consume in 1915 bread, clothes, rifles, guns, shells, &c., made in 1916. Neither indeed can they convert houses, factories, and similar forms of fixed capital goods into munitions for the army or bread for the civilian population.

Aside from supplies which may be got from abroad (and which by the way must in large part be paid for in currently produced goods), all the supplies needed for the prosecution of the war and for the maintenance of non-combatants must come out of current production within the country. The "true" cost of the war by the end of March, 1916, will have amounted to 9.8% of the national wealth, 77.6% of the national income, and 426.6% of the national savings. If expenditure continues on the same basis, for another financial year, these same percentages will represent the cost for the single year. We can now see how moderate Mr. Montagu, the Financial Secretary of the Treasury was when in October he estimated that the Government expenditure was taking not less than two-thirds of the entire estimated national income, and concluded that "every citizen ought to be prepared to put at least half of his current income at the disposal of the State either in the form of tax or loan." We can see also how though the first year of the war may have been financed almost entirely out of normal savings, that is possible no longer. Though perhaps one-third of the most vigorous "occupied males" have been withdrawn from productive industry, it is probably not true that our national income (11 billions) has decreased, considering the rise in prices; the employment of women, boys, and old men; the increase of overtime; and the general acceleration of 'pace.' Subtracting our normal consumption of 9 millions, we have a fund of savings amounting to 2 billions, half of which in peace times is used at home and the other billion invested abroad. Foreign investments cease of course, and very little will be devoted to betterments of the national plant. We have therefore nearly the normal savings of 2 billion dollars available for the war, but the expenditure on our supplies of munitions, plus our loans to the Allies (which will be taken in the form of goods from us or other nations) is perhaps well over 5 billions.

This leaves a deficit of over 3 billions which must be met by loans from abroad, by the sale of securities, and by extraordinary savings. We have already borrowed 300 millions in the U.S. and we will borrow more, but the capacity and willingness of the U.S. to lend is limited. We have also sold foreign securities (of which we hold some 20 billions), but the market for these is restricted, being confined practically to the U.S. How much we have raised in this way is not known definitely, though it is estimated that U.S. has already bought back from all Europe at least a billion dollars' worth of her securities. But though the sale of these American securities has been considerable, the movement has not been rapid enough to satisfy the nation's needs, and in Dec., the Chancellor outlined his scheme for the mobilisation of dollar securities. The Government offers (1) to buy certain dollar securities (U.S. or Canadian) and pay for them in its own 5% 5 year Exchequer bonds; or (2) at the option of the holders to borrow the securities for a period of 2 years, paying to the owners an additional ½% above the interest they receive on the bonds, leaving them the right to sell whenever they please in New York, and claiming for itself the right to sell whenever a sale may be necessary. In the event of a sale on Government orders the holders will receive the market price in New York at the current rate of exchange, plus 2½% as compensation for disturbance. This it is hoped will quicken the stream of sales, thus not only assisting in the grave problem of financing imports and maintaining sterling exchange, but also enabling

England to pay for part of her colossal war burden out of her capital, or accumulated wealth. But obviously this will not solve the whole problem; and a very large percentage of the expenditure will have to be met out of extraordinary savings. It is a realisation of this fact that is behind the economy crusade, which was ushered in at the time of the second War Loan, and of the more recent concentration of effort upon the marshalling and mobilising of the country's financial and economic resources. Since midsummer economy has been preached from every pulpit, rostrum and newspaper in the land; private War Savings Committees to discourage luxuries, and Cabinet Retrenchment Committees to ascertain where waste and where economies could be introduced in public and private expenditure, have been at work; and though many classes are still spending more than before the war, yet it has been estimated that already normal savings have been doubled. Much more however must be done. The nation, if it is to win, must learn by self-discipline and organization to direct all its "national energies at the highest pressure towards the objects of the war, to eschew all production and all expenditure, whether national or personal which tends to divert energies and savings away from national ends towards meeting the mere luxuries, the comforts and the unessential wants of individual citizens." It seems for instance an infinite pity that at a time when waste is a sin against patriotism and when it is vitally necessary to keep the whole industrial machine at the highest pitch of efficient operation, over 800 million dollars or nearly half the true cost of the war for the first eight months should be expended annually on liquor, which for the most part means not simply waste but an actual diminution in the efficiency and wealth—creating power of the State. To conclude with the words of the Bankers' manifesto recently addressed to the people:—"No one can realise the vastness of the task before the nation without becoming keenly conscious that it demands the strenuous cooperation of every man and woman, youth and maiden in the country; that the nation's energies must be completely concentrated upon the production of really essential things; and that the production of all non-essentials must be wholly stopped. Moreover not only must the nation avoid the consumption of all non-essentials, but must even restrict the consumption of essentials to the limits of efficiency. Futhermore, individuals possessing securities marketable abroad must sell them in order to pay for goods and munitions purchased abroad for which no other means of payment can be provided. Lastly the credit of the nation and of individuals must be employed in order to pay for goods and munitions purchased abroad for which payment cannot be made in goods, services, or securities. Only by all classess, employers and employed alike, adding to, and most carefully husbanding, income, by selling foreign securities and by creating foreign credits will it be possible to provide the vast sum needed by the nation and the nation's Allies."

2. The British Empire.

It is only very recently that the need of mobilising the financial resources of the whole Empire has come to be realized by the various Dominions, or indeed by Great Britain herself. On the outbreak of war the British Treasury refused to allow capital to be raised in London except for military purposes. But for military expenditure the Colonies relied as of old on loans from the United Kingdom. Thus in the fall of 1914, over 200 millions were thus advanced by the Treasury at the rate Britain had to pay on her long-time loans. Since July, 1915, however, this stream of advances has largely dwindled away, the Colonies are raising domestic loans, and some have actually swung round to the position of creditor nations. This must go still further. The 43 billions of capital wealth and the 7½ billions of annual income of the overseas Empire,—comparable to Austria-Hungary, be it noted—must be mobilised and made available for Britain's purposes. The comparative youth of the Colonies, the development of their natural resources just begun, and their lack of any large reserves of liquid wealth vitiate to some extent the comparison with Austria-Hungary. Yet it would seem that the Dominions can and must meet out of their own resources all or nearly all of their own military expenditure, or lend to the British Government by exporting their goods on credit. This latter method would greatly facilitate the solution of England's gravest problem. Today England's purchases of food supplies, raw materials, and munitions from the Dominions aggravate her exchange problem, just as much as if they came from neutrals. If the Dominions, however, are to sell their exports to the motherland on credit, there is with them the same necessity for the organisation of production, the increase of economy, and the accumulation of savings.

Only brief mention can be made of the financial condition in the different colonies. India, because of the strong financial condition of the Government and the Banks, weathered the initial shock of war exceptionally well, avoiding the break down of the remittance system and keeping her exchanges fairly normal. Considering the dislocation due to the war and the decline in foreign trade, public revenues showed up better than could be expected, the deficit of 1915-16 being only 20 millions. No new taxation is being levied, but the deficit will be made up by heavier borrowings in London, and by domestic loans. Last July, a domestic loan produced 15 millions. The

Imperial Government is assuming all the extra military expenditure due to the war.

Industrially South Africa was badly hit by the war, which indeed only intensified an existing depression. Three industries especially suffered, diamond mining, ostrich farming and agriculture. The diamond mines indeed have been closed down since August, 1914. The revenues showed heavy declines because of the falling off in custom receipts, but the deficit is being made up by decreasing expenditure, increasing Customs and Excise duties, revising the Income-tax, and imposing a special War Levy on the profits of gold-mining. For the first two years, the war expenditure of the Union, it is estimated, will amount to about 80 million dollars.

Good harvest seasons and record prices for wool, frozen meat, butter, &c., has allowed profits to accumulate in New Zealand and rendered her financial problem comparatively simple. To the end of March, 1915, New Zealand had spent nearly 17 millions on the war. To provide for war costs in 1915-16, taxation was increased by 10 millions, and an internal 4½% loan for another 10 millions was recently floated.

Australia has met its war expenditure, which by June 30, 1916, will have amounted to 320 millions, by increased taxation (including a new income-tax), by advances from the British Government, and by a domestic loan. The latter is a 4½% loan, free from all taxation, and issued at par. Though a loan of 100 millions has been authorized, only the first instalment of 25 millions was offered, and the subscriptions totalled 65 millions. One doubtful feature of Australian finance is the steady increase of the note issue of the Commonwealth Bank from 45 millions before the War to 180 millions on Aug. 25, 1915. The object of this increase was primarily to make advances to the States in order to enable them to carry on their public works, the States depositing 25% of the advance in gold and paying 4% interest. There is urgent need of economy in Ausralian expenditure, especially in that of the States which have gone on adding to their expenditure on public works, trusting to borrowing from the Commonwealth and the British Treasury. The attempts to fix maximum prices for wheat and flour in most of the States did not meet with much success.

Canada.

The familiar facts in regard to Canada must be briefly summarized. War came upon us when we were in the midst of liquidaton after an exploded boom, and aggraated for a time the consequences of the latter,—the collapse of land values, the decline of imports and consequently of revenue, a falling off in immigration, monetary stringency, unemployment, and general stagnation of trade. A very poor wheat crop still cond

further intensified the various difficulties. But after a year of war, and partly as a result of that war, Canada's financial and economic postion, measured by all of the usual yardsticks, is stronger than ever. "Bank clearings saving deposits, export trade, Canadian Pacific net earnings, all," says Prof. Skelton in the Globe's Financial Supplement, "reached in October or November he highest levels ever attained. The causes of this revival or reprieve are familiar. The magnificent harvests of our unravaged fields and the fairly high prices prevailing are chiefly to thank. Orders on unprecedented scale for munitions and war supplies have contributed a great share. The preachers of patriotism and production, or perhaps stern necessity, have stimulated the old-fashioned virtues of economy and hard work. The enlistment of over two hundred thousand men has practically ended unemployment. New sources of capital have been developed in the United States and in Canada itself, and our financial institutions have marshalled the resources available with a prudence and efficiency that leave little to be desired."

The emergency measures adopted in August, 1914, comprised, it will be remembered, the suspension of the obligation to pay Dominion notes in specie; the authorisation of Government advances to the chartered banks in the form of an issue of Dominion notes against the deposit of approved securities, interest at 5% (taken advantage of only to a slight extent); the granting to the chartered banks of the right to make payments in bank notes instead of in gold or Dominion notes; legislation authorising the declaration of a moratorium if, as was not the case, it should be found necessary; and increase of the fiduciary issue of Dominion notes (backed by only 25% in gold), from 30 million to 50 million.

It is pretty difficult to say just what Canada's actual expenditure on the war has been. For the first 12 months it has been estimated at 90 million dollars; for the fiscal year ending Mar. 31. 1916. Sir Thos. White allowed in his February budget for 100 millions of special war expenditure. With an army of 250,000, he estimated that the cost would be 250 millions for the next fiscal year, but already we have nearly that number enlisted and an enlistment of a half billion has been authorised. Roughly the cost may be set down as $1,000 per man per year.

How has Canada financed the expenditure? Partly by increased taxation. In August, 1914, the Finance Minister increased he Customs duties on coffee, sugar, liquors, and tobacco, and the excise duties on liquors and tobacco. These were expected to bring in for the fiscal year an extra revenue of $14,600,000. In February, a general horizontal increase of the customs duties upon all imports was authorized, amounting to 7½ ad valorem under the general and intermediate tariffs, and 5% under the British preferential tariff. An extra 22 millions raised in this way was to be supplemented by 8 millions secured from special taxes on bank note issues, the income of trust and loan companies, premiums of fire insurance companies, telegraph messages, passenger fares, checks, bills of exchange, promissory notes, money orders, postal notes, letters and postcards, and on proprietory medicines, &c.

By increasing the issue of Dominion notes as authorized by the emergency legislation, the Government secured 15 millions, and by an issue in excess of this legal maximum, for which special confirmatory legislation was later obtained, an additional 11½ millions was secured. This increase in the issue of inconvertible paper constituted a loan to the Government without interest, but it has not led to depreciation, because of the ample gold reserve held against the notes—62% in October.

But borrowing has been Sir Thos. White's chief reliance.* Thus in the fiscal year, 1914-15, he arranged for advances of nearly 60 millions, borrowed 5 millions from the Bank of Montreal, floated 15 millions of 6 months' Treasury Bills in London at 4½% and 4¼%, and sold in London at a net price of 94½ nearly 6½ millions of Dominion of Canada 1940-60 stock. In the fiscal year 1915-1916, the advances from the Imperial Treasury continued at the monthly rate of about 10 millions until July. In March, 25 millions of 5 year 4¼ bonds were sold in London, and in July, 45 millions were raised by the sale of one and two year 5% notes in New York—"the backbone of the year's financing." But "the fiscal event of the year" was the flotation of the 50 million 10 year 5% domestic loan in November which within 10 days, brought in subscriptions for $104,000,000 from some 25,000 subscribers. The Government decided to accept the extra 50 million and to employ it in establishing a credit for the Imperial Treasury for the purchase of munitions in Canada, with a view to relieve sterling exchange and encourage increased orders. This remarkable volte-face from the position of a debtor nation to that of a creditor nation has been due, as already suggested, largely to the 425 million dollar crop and the 500 million dollar war order business, which have enabled us to turn an unfavorable trade balance of 130 million in 1914 into a favorable balance of over 200 millions in 1915.

*It is impossible to disentangle borrowing for military purposes from borrowing for other purposes.

3. France.

Turning now to our most important ally, we find an impression, among some observers at least, that of the three belligerents hitherto foremost in financial prestige, France has given in the first year of war the greatest indicaton of weakened financal and economic power. The grounds for this impression we shall have later to consider. Certain it is that however strong France seemed to be in the Boer and Russo-Japanese Wars, yet in the few months preceding the outbreak of the present conflict there were unmistakable signs of weakness in her financial system. Indeed owing to the enormous absorption of French capital in the Balkan Wars, the heavy losses of French capital in second-rate South American investments, the rapid changes of Government, the postponment of the public loan, the apprehension of the income-tax, and the heavy burden of public expenditure involved in the new Army Law, something of the nature of a domestic crisis was experienced during the summer of 1914. Naturally therefore, when war broke out, the Lombard Street difficulties were repeated, in the already weakened and panicky Paris money market, in an aggravated form,—the rush of sellers to turn securities into cash the crumbling away of values, the closing of the Bourse and the postponment of the settlement, the hoarding of gold, the dearth of currency, and the general suspension ofindustrial and economic life.

The remedial measures taken by the Government were four in number. (1) the issue of legal tender 20 franc and 5 franc notes, to fill up the gap in circulation (2) the limitation of withdrawals of bank deposits to 5% of the surplus above 250 francs in any indivdual account. and of savings bank deposits to 50 francs per fortnight for each depositor. (3) The Bank of France was authorized to suspend specie payments, that is to cease redeeming its notes in gold, for in spite of the large gold reserve of nearly $800.000.000 which the Bank of France held on July 23, it had already expanded its note circulation to $1.146.000.000, somewhat near the legal limit, and moreover it was desired to maintain this stock of gold as the basis for direct loans by the Bank to the Government. (4) Finally the Treasury came to the assistance of the traders and speculators, by declaring a temporary moratorium for Bourse and Coulisse transactions entered into before August 1st, and postponing the settlement until August 30th. This temporary moratorium of August 6th was revised on the 9th, and on the 10th made more general, prescribing a suspension during the period of hostilities of all "civil, commercial, and administrative prescriptions and pre-emptions." It is impossible to follow the long series of later moratorium decrees or to trace in detail the various steps taken towards a resumption of more normal condtions. Suffice it to say that these French moratoria were exceptionally harch and drastic, that while they relieved the position of debtors they brought ruin to creditors, and that they proved constant stumbling glocks to the resumption of normal industrial production which had been paralysed not only by the credit difficulties but also by the ruthless mobolisation of all able-bodied men, carried on at first without any regard for the needs of industry. Further some relief was given by the fact that the Bank of France continued to discount freely both in Paris and the provinces and reduced its rate to 5% in the third week of August. The decree of October 27th still further helped matters, raising the sum which bank depositors could withdraw to 1000 francs, plus 50% for December. On Nov. 12th the Agents de Change made an arrangement with the Banque, for guaranteeing a portion of the loans on the Parquet for the carry forward, and on Dec. 7th, the ready money market was opened. In the meantime the encouragement of the Government and the influence of war orders for supplies had succeeded in a gradual restoration of ordinary business and industrial activities.

Military Expenditure.

France's military expenditure has never been as great as that of Britain and indeed at the present time is not much over half as great. Senator Aimond, on Dec. 23, stated that the military expendture for the last five months of 1914 had been 805 millions :for the six months of 1915, 1100 millions; for the third and fourth quarters of 1915, 1300 and 1570 millions respectively; and for the first three months of 1916, it would probably be 1750 millions. This would make France's war bill to the end of March, 6.535 million dollars. This compares with a pre-war expenditure of 1,200 millions, itself extremely large, and twice the budget requirements at the close of the nineteenth century.

Revenue from Taxation.

Though an income-tax and a war profits tax have been frequently advocated, and will probably come before the end of the current year, yet so far France has not paid for any of her war expenditure by increased taxation. Indeed the loss in her ordinary revenues, which must be considered as an indirect cost of the war. The heavy decline of 40% in indirect taxes and of 30% in direct taxes in 1915 was due in the first place to her reliance on Customs receipts for a large part of her revenue, and in the second place to the fast that 13.5% of her territory, the seat of her chief manufacturing industries and the home of 17% of her people, was in the hands of the Germans and contributed nothing.

Advances from the Bank of France.

If then M. Ribot, the French Minister of Finance has steadily refused to change the existing system of taxation, how has he sought to bridge over his increasing deficit? He has depended wholly on loans, chiefly short-time obligations of the type of Treasury bond issues. For this failure to meet part of the war expenditure out of current taxation, and for his postponement of any attempt to refund the increasing mass of floating debt, he has been severely criticised. His answer has been in the first place that it would be difficult if not impossible to assess new taxes because so large a part of France's richest territory was still in the hands of the Germans, and in the second place, money market conditions were not favorable for a long-term ssue.

This borrowing, on which France has relied wholly to finance her war bill, has taken place in three or four different forms. In the first place the Government has borrowed from the Bank of France. The total so far advanced by the Bank is $1,520,000,000, and this advance has been made at a very low rate, 1% per annum until the close of the war, when it will be raised to 3%. In some sense this method of borrowing from the Central Bank of the nation approaches very near to our second method of war finance, namely, the extension of the paper currency. For the actual procedure is for the Bank to make these advances in the form of its own notes, which are of course used by the Government in its purchase of war supplies. The printing press is at work turning out paper money. The notes however are an obligation, not to the State, but of its agent, the Bank of France, and the method by which the State itself secures general purchasing power is that of borrowing. The only restriction under which the Bank of France normally lies, as regards the issue of notes, whether backed by gold or not, is on the aggregate amount outstanding at one time. There is no legal relation between the amount of notes issued, and the reserves held against them, either in gold or discounted paper. In fact the only check, outside of the maximum limit, is the moral abligation to redeem the notes in cash on presentation. In times of emergency, however, it is manifestly impossible for the Bank to do this, if at the same time it is expected to advance almost unlimited amounts to the Government. In August last, therefore, the State stepped in, relieved the Bank from this duty by suspending specie payments and making Bank of France notes legal tender not only as between individuals but also for the Bank itself.

As has been already stated, the advances made by the Bank to the Government reached, on Dec. 16th, the enormous total of over a billion and a half of dollars. When the bank charter was renewed in 1897 for 23 years, a condition of its renewal was that it agreed to advance permanently to the state \$40,000,000, bearing no interest and not repayable before the expiration of the charter. By a convention dated 1911, the bank was bound to lend \$580,000,000 at the outbreak of war; this amount was raised to \$1,209,000,000 in September, 1914, and to \$1,800,000,000 in May, 1915. To make possible these advances to the state, the maximum limit of circulation has been successively raised from \$1,360,000,000 in 1911 to \$1,800,000,000 in August, 1914, to \$2,400,000,000 in September, 1914, and to \$3,000,000,000 in May, 1915. On December 16th, the Bank of France notes in circulation reached the enormous total of \$2,689,000,000, as compared with \$1,336,000,000 on July 30, 1914. The danger involved in this enormous issue is the possibility of these notes falling to a discount. So far, however, this does not seem to have been the result. The notes are accepted readily, partly because of the traditional confidence in the Bank, and partly because of its enormous reserve of gold which on December 16th, 1915 amounted to \$1,005,000,000. For about the first year of the war this gold reserve remained almost stationary at something over \$800,000,000. The increase in the last few months is due to a voluntary movement, endorsed by the ministry, which encouraged the people to bring their private hoards of gold to the Bank of France, and the result has been to much more than counterbalance the loss of gold exported to pay for purchases made n the United Kingdom and in the U.S.

Short-Time Loans.

Apart from these advances from the Bank, the French Exchequer has made use of two other short-term issues;—(1) National Defence Bonds, akin to the English Treasury bills, running 3, 6, or 12 months, bearing interest at 4 or 5%, and issued in small denominations in order to give the small investor an opportunity. Their issue price is fixed by M. Ribot, and they yield from 5 to 5½%. Though at first accepted very slowly, they have since proved a great popular success, having brought into the Government's coffers \$1,673,000,000 by the middle of November. A considerable part of this represented savings of the French peasant. (2) "Obligations de la Défense Nationale," a 5% security, repayable at par 1925-28, and issued at 96.50 to yield 5.68%. In common with the National Defence Bonds, they may be converted into any new loan, during or after the war, at their issue price. By the middle of November, they had produced \$732,000,000.

"The Loan of Victory."

As the conditions in the money market improved, as the advances of the Bank of France reached a total beyond which it would not be wise to go if the Bank was to be in a position to make advances to the Allies and perform other important functions for the State, and as the mass of floating debt attained an extremely high level, the call for a consolidated loan, either in the form of perpetual Rentes of of long-term bonds became more and more insistent. The neglect of such refunding operations and the failure to rely at all on taxation did lay French war finance open to justifiable criticism. M. Ribot in reviewing the financial situation in the Chamber of Deputies on May 27, 1915 had compared the proportions of the war funds furnished by the people and by the banks in the different periods and had drawn optimistic conclusions therefrom as to the increasing confidence of the people and the improvement in their general economic position. Thus whereas from Aug. 1st to Dec. 31st, 1914, about one-third of the sinews of war was obtained from the public and two-thirds from the banks, in the first six months of 1915, this position had been quite reversed, nearly four-fifths being obtained from the public. It was therefore a feeling of relief rather than of surprise that greeted his announcement of the great consolidated French Loan which was opened for public subscription on Nov. 27th, 1915. This was a long-time loan bearing interest at 5%, and was exempt from taxation. The State retained the right to convert or pay up the new Rentes at any time after the fifteenth year, such redemption being optional, by series or years, on or after Jan. 1st, 1931. The subscription price was 88f, and the amount was unlimited it having been thought unwise to run the risk of failure. Subscriptions may be paid with National Defence vouchers and bonds of previous war loans with 3½% Rentes, and in certain conditions with 3% Rentes and saving banks deposit receipts. Saving banks depositors, who since Aug. 5th, 1914, have been unable to withdraw more than 50f. per fortnight per book, are now able for the term of the loan, to draw upon their deposits to the extent of half their subscription to the loan. One dangerous feature of the loan which resembles the specious expedients of German war finance is the offer of the Bank of France to advance three-fourths of the value of the new Government obligation, not exceeding $60,000 to a single individual. The moving picture theatres were called in to popularize the loan, with the result that over 3 million subscribers subscribed for $2,900,000,000. Of this total about one-half represented new money, and the other half conversion of National Defence bonds and other previous issues. Some 120 million dollars were taken by subscribers in England.

So far we have dealt only with French domestic loans. France, however, has succeeded in raising some capital in foreign markets. For instance up to November 1st, 1915, the proceeds of bonds sold in England amounted to $206,000,000. These represented in the main advances by the British Exchequer against about one-third the amount of gold shipped by France to the United Kingdom. Further some $37,000,000 was obtained in the U.S. This so-called Rothschild loan was based upon a pledge of American railway bonds held by French investors. Finally, France's share of the great Anglo-French loan arranged in New York amounted to nearly $250,000,000, bringing the total of foreign borrowing up to over half a billion dollars.

4. Russia.

In some respects the outbreak of war found Russia in a more favorable position than some of the other principal belligerents. A series of splendid harvests had left the country in an excellent financial condition. Her banking system was very strong. A huge reserve of gold, equalled only by that of the Bank of France, had been collected in the vaults of the Imperial Bank, thanks to the deliberate policy of the Treasury, and to a succession of large and favorable trade balances. Her wealth had been increasing rapidly, as a result of the application of foreign and domestic capital to that variety of natural resources which make Russia perhaps the richest and certainly the most self-contained of all European countries. Further when we consider that the industrial system of Russia is less highly developed and her financial mechanism less complicated and therefore less sensitive, we are prepared to understand how the immediate shock of the war was less paralysing in its effects, less far-reaching in its ramifictions. Only in those districts which were the scene of actual hostilities was there entire disorganization. Only in connection with the foreign exchanges which rose quickly from 94 or 95 to 147 were Russia's difficulties greater than those of the other nations at war. The Bourse was indeed closed on July 30th, at first only for three days; and at the same time a moratorium was proclaimed, at first only for two months and only for debts arising out of bills of exchange, but extended on Oct. 18th to cover "debts arising out of contracts in general. But whereas in England, France, and Germany, the relatively large quantity of gold in circulation in private hands and the hoarding panic made it difficult or impossible to supply the demands of the public during the first few weeks of the crisis, in Russia not only was there no such thirst for gold, but the banks were fully in a position to meet all demands for cash during mobilisation.

In regard to the actual cost of the war and the extent to which it has been financed by one or other of th emethods given, it is difficult to secure accurate figures for Russia. Our information in the first place does not come down to as late a date, and in the second place it is almost impossible to disentangle estimates from actual expenditure, or the strictly military expense from the other Governmental expenditure. The Russian Budgets presented at various times to the Duma do not give an accurate picture of the finances of the country. Many important items created by the war do not appear in the Budget accounts at all, but are left over for consideration at some indefinitely postponed date. Thus the estimates for 1915 presented in February contain only a few unimportant items of navy and military expenditure. This is because, by a fundamental law of the Empire, the war departments can in time of national danger contract liabilities by "administrative order" which need not be actually brought forward for sanction until such date as the Government may determine. The best estimates we have however give $1,130,000,000 for the last 5 months of 1914 (including $180,000,000) for mobilisation costs), $3,733.000.000 for 1915 (an average daily cost of $10,230,000), and $1,095,000,000 for the first 3 months of 1916 (an average daily cost of slightly over $12,000,000),—making a total of $5,958,000,000 to the end of March.

Reliance on Taxation.

How has Russia financed this 6 billion war-bill? To what extent has she relied on the tax collector? It is evident at once that for a country like Russia it is impossible to provide such large sums as in England out of current taxation. Though the taxable resources of the Russian Empire are vast, they are as yet too undeveloped to tap readily in case of emergency. Yet something, and indeed a great deal, has been done. The technical difficulties of Russian war finance were aggravated at the outset, as we all know, by a great act of national heroism and sacrifice, the abolition of the Government vodka monopoly. For 1914 this monopoly was expected to bring in $465,000.000 or over 26 2% of the total ordinary revenue; in the draft budget for 1915 revenue from the same source was only 4.7%. Of the actual drop of $264,000.000 in the revenue for 1914, $200,000,000 or roughly four-fifths was attributable to the voluntary relinquishment of this monopoly. But whatever its immediate inconvenience to the Treasury, the increased productive power of a sober Russian people applied to their enormous natural resources will enable future budgets to be based on new and better principles than the old ones, and indeed even already, considering this increased productivity, the increased efficiency in the civil and military ranks of the people, and the rapidly mounting deposits in the savings banks assuring the success of Government loans, the salutary effects of this revolutionary reform have in a practical financial sense more than counterbalanced the loss of revenue.

What fresh taxation has been levied? In 1915, nearly \$270,000,000 or considerably over one-sixth of the ordinary revenue was to be raised by new taxes or by the increase of existing taxes. Among direct taxes, the levies on immovable town property, nomad huts in the Asiatic provinces, trades guilds, and apartments were so raised as to bring in an extra \$43,000,000. Increases in indirect taxes, such as those on yeast, cigarettes, tobacco, paper matches, sugar, naptha, spirits, wine and beer, were to bring in another \$47,000,000, while \$146,000,000 was expected from a 25% tax on passenger tickets and a general rise in goods freights. The criticism of the Cadets and Social democrats was of course in a large measure justifiable, in that these taxes, being indirect, fell with especial severity on the poorer classes.

Their demand for an income-tax, which would be just as remunerative and would fall upon those best able to bear it, was met by the Finance Minister in his proposals for taxation in 1916, in which a general and progressive income tax is the leading feature. There are also a tax on persons exempt from military services and reforms in the legacy duty, the license duty on trades and professions, the tax on sums lent on mortgage, and the land tax, while excise duties are contemplated on electric power, textiles, gunpowder, and molasses, as well as increased excise duties on better-class tobaccos, fruits, and alcohol derived from the grape. Though designed to do little more than meet an indirect cost of the war, that due to loss of revenue, yet even this measure of reliance on the taxing power of the State is highly commendable and bears evidence to the financial strength of Russia. As evidenced by the debates in the Duma, all parties now recognize that Russia is entering upon a period of "merciless taxation." But this merciless taxation it is recognized must be applied equitably to the various groups of taxpayers, and the new income-tax is considered the foundation of the correct financial policy of the future.

Inflation of the Currency.

In common with the other belligerents, Russia has also found it impossible to resist the temptation of meeting a part of its war expenditure by extending the paper currency. The Bank of Russia, alone among the Central Banks of Europe, is a purely Government institution, being administered by a Governor, Deputy Governors, and a Council, all appointed by and removable by the Government. It is indeed merely a department of the Imperial Treasury, doing all its financial business and holding the Treasury balances. Like the Bank of England, it has a fixed fiduciary note issue, above which notes can be issued only when backed rouble for rouble in cash. But "cash" for this purpose, includes not only the gold and silver in its own vaults, but also deposits held in the Bank's behalf in the chief European financial centres. The last return before the war showed a cash total of over $909,-000,000, of which amount slightly over $800,000,000 represented gold in the Bank's own vaults. As the fixed fiduciary issue was $150,000,000 in peace times, and as note circulation on July 21st was only $817,000,000, the unissued margin of notes was even then nearly $250,000,000. Here then was too great an opportunity for a hard-pressed Finance Minister to let pass. On July 31st, therefore, the maximum of the fiduciary note issue was raised five-fold to $750,000,000; on March 17, 1915, to $1,250,000,000; and in October to $1,750,000,000. These later extensions were however only conceded as temporary measures of relief till the period of the stress of the war should have passed away. The money derived from this source provided for most of the mobilisation expenses at the outbreak of war, and has continued to be a very valuable support of the Imperial Treasury. On Dec. 6, 1915, the last return available, the notes of the Bank in circulation reached the enormouse total of $2.609.875.000. This meant that in 15½ months of war, the Bank had provided the Government with $1.892,820.000. This moreover had been done without weakening seriously the position of the Imperial Bank, for on Dec. 6th. the cash reserve amounted to over 31% of the notes in circulation. The actual gold guarantee against the notes was over 30%, which it is to be noted is nearly as great as the German legal requirements in peace time.

Borrowing Operations.

But borrowing has been and will continue to be the main reliance of the Russian minister of Finance. In the early days of the war financial prophets were very pessimistic as to the possibility of raising internal loans in Russia. Native capital was not thought sufficient to provide more than the barest fraction of the sum required to be raised by loans. Agreeable surprises have been furnished on this point, however, due in large part to the beneficent effect of sobriety on the productivity and saving of the Russian peasants. On August 1st, 1915, M. Bark, for instance. stated that national savings had increased to upwards of $900,000,000, more than offsetting the loss of the vodka revenue. "Since Aug., 1914." he said, "the loans issued in Russia have amounted to 1.300 million dollars. Treasury bonds to the amount of 922 million dollars have been taken by the State Bank, and 177 million otherwise. The (domestic) market is, therefore, not so limited as was supposed: the sums held by the Bank on deposit and current accounts have increased since last year by 800 million dollars. The savings bank deposits, estimated at their specie value, formerly increased by 20 or 25 million dollars annually; now they are increasing by 25 millions a month." The importance of this will be seen when we remember that during the war with Japan, not a fifth part of the sum now secured from the domestic market in a year of war could have been obtained within the Empire.

The domestic loans have been in the main short term obligations, placed with the banks. Up to the middle of October, according to an estimate of the statistics, they amounted to $1,937,000,000, of which some $1,277,000,000 consisted of short-term Treasury bonds placed with the State Bank, and the remainder represented Treasury bills. Besides these short-time issues, three internal loans have been raised by the sale of long-term bonds. The first two, issued in October, 1914, and in the early months of 1915 respectively, these loans were for $250,000,000 each, bore interest at 5%, and were issued at 92-100. On May 28, the third internal loan was opened for subscription, differing from its predecessors in amount and terms of issue. This loan for $500,000,000 bears 5½% interest till 1921, then 5% till redemption in 1926, and is issued at 97½. On Dec. 1-14, 1920, holders of this loan may declare their desire to get the nominal value. But if they do not give notice to that effect the 5½ short term loan will automatically become a 5% long term loan, that is, it will become one of the group of general Russian 5% loans. Nearly three-fifths of the total was taken up by a syndicate of private Russian commercial banks, the remaining $200,000,000 by the Imperial Bank. A large part of this internal loan was therefore subscribed by foreign capital, as the capital of these private banks was largely French, and to a smaller degree Russian and English. The Imperial Treasury is now considering the flotation of a fourth internal loan. The terms are very favorable, and M. Bark expects an ample response, relying upon the increase in savings bank deposits and the aggregate of banking deposits and current accounts in the private banks now totalling over $2,000,000,000.

Foreign Loans.

Russia has also borrowed to a considerable extent abroad. England and France have had to step in to the aid of their partner in the Triple Entente. The big problem has been how to finance Russia's tremendously increasing imports. We saw how on the outbreak of war the Russian exchanges were for a time altogether blocked, and ever since, the sterling value of the rouble has shown a depreciation ranging from 15 to 60%, (now about 42%). This depreciation is of course due to the continuance of imports, the cutting off of exports due to the blocking of the Baltic and Black Sea Outlets, the decision not to export gold to any considerable extent, and perhaps also to the enormous increase in the paper currency. Russia therefore can only finance her foreign purchases by getting some creditor to back the bills and Treasury notes she is issuing on the basis of her large gold reserve. On Dec. 4, 1915, the British Treasury announced that in consideration of the shipment of $40,000,000 in gold to London, they had arranged with the Bank of England to discount, under a guarantee of the Government Treasury Bills to the further amount of $60,000,000, the rate of discount to be on the basis of the rate at which the British Government has been able to borrow for its own needs. This was to be used to pay external obligations of Russia payable in London and to finance Russian Government purchases in the United Kingdom. From time to time similar arrangements have been made with British and French Governments with the result that by the middle of October, 1915, 250 million dollars worth of Russian 5% short-term obligations had been placed in England, and over 312 million dollars worth in France. This assistance to Russia is the result of the coordination of resources arranged by the two conferences of the Allied Ministers.

5. Italy.

Though Italy did not enter the war on the side of the Allies until May 23, 1915, she felt its disastrous effects from the beginning. She was indeed especially hard hit by its outbreak because of her weakened financial position consequent upon the recent war with Turkey and because of the dependence of some of her chief industries, especially the silk industry, upon foreign markets now closed to her. She therefore did not escape the universal internal dislocation of trade and credit, nor the various expedients which most countries adopted to meet it—postponement of the Bourse settlement, moratoria, increase of inconvertible paper money, &c.

Before considering the increase of note issue, let us first get some idea of the cost of the war to Italy. Prof. Einandi states that the "expense in preparation for war" amounted to 453 million dollars. Statistics recently made public give 441 millions as the naval and military expenditure from June 1 to Nov. 30. Adding 120 millions for the last week in May and for December, we reach a total of 914 million dollars to the end of 1915. Estimating the present daily expenditure at $3,650,000, we may conclude that by March 31, 1916, Italy's war bill will have amounted to roughly 1¼ billions. This does not of course include the money Italy receives from us. The figures seem remarkably small, England spending in 4 days what Italy spends in a month, but it should be remembered that whereas England's expenditure is in terms of liability incurred, that of Italy is in terms of actual disbursements only.

To the extent of some $52,000,000 Italy has relied on taxation to meet her increased expenditure, although the existing high level of taxation did not warrant any large increases. An increase of 10% in the already heavy income-tax, an increase in stamp duties and land registration fees, taxes on "movie" tickets and on permits to carry revolvers, higher telegraph and postal charges, a tax on persons exempt from military service and on joint stock company directors, a super-tax on motor cars and motor cycles, an increase of duties on exports and imports, an increase in the spirits and tobacco tax,—these are the chief changes. Their variety and small result are evidence of the strain on Italy's fiscal resources.

Mention has already been made of the considerable extent to which Italy has relied on the extension of her paper currency. Authorisation was given for the three banks of issue to increase their issues by $373.000,000, and for the Treasury to increase its own state notes ($1 and $2) by $35,000,000 and to issue a wholly new series of one and two lire notes. But the danger of such inflation was pointed out by the economists, and the banks were prudent enough not to take full advantage of their opportunities. By Dec. 31, 1914, their note circulation showed an increase of only $147,000,000 and this was almost wholly for the purpose of making advances to the State Treasury. What the total increase in paper money to the present time has been we do not know, but it is probably something like $300,000,000.

Italy's borrowing operations may be briefly summarized:

25 year 4½% bonds at 97 yield 4.64% (Jan. 1915)	$200,000,000
25 year 5% bonds at 95 (July, 1915)	225,000,000
	$425,000,000

The terms of isuue were very favorable to subscribers in both cases, but we have been unable to find out to what extent, if any, advantage was taken of the offer of the Banks of issue to loan up to 95% on the stock of the first loan. In December, Finance Minister Carcano announced that it would soon be necessary to appeal for another great national loan.

The sole foreign borrowing indulged in by Italy, apart from the assistance she is getting from England and France, was the raising of $25,000,000 by the sale of Italian Government one-year 6% notes.

6. Belgium.

The case of Belgium can be disposed of with few words. Part of the truth is familiar to everybody: the rest nobody knows—except the Governments of the Allies. One of the most prosperous countries and perhaps the most highly industrialised country in the world when the war broke out, Belgium is now a blackened ruin, "devastated, desolate, almost entirely in the hands of the enemy, with an army and a Civil Government to maintain, but with no revenue." Her people, numbering about 7½ millions, had developed a foreign trade amounting to over $1,700,000,000 in 1912, and their national wealth was estimated roughly at $12,000,000,000. To this latter sum, considerable was being added each year by the people's savings out of a national income of $1,400,000.000. The national balance sheet showed a yearly revenue of $146,000,000, and a national debt of $826,000,000 in 1913. To-day, "all administrative, industrial, commercial and financial life has come to a stop. There is no money, business is at a standstill. Entire industries have been transported to Germany by simply expropriating machinery and the necessary materials."

What the cost of the war has been to Belgium it is impossible to say. Certain it is that all that cost is now being borne by Britain and France. As early as Oct. 11, 1914, the levies imposed on Belgium amounted to $240,000,000, and a Brussels advocate, M. Masson, has in a detailed estimate valued the property damage of the first three months of war at over a billion dollars. Though doubtless exaggerated then, this may be near the truth at the present time.

The administration of the national debt has been taken over by the Bank of England. The Belgian National Bank with its 63 millions of gold and silver, and all its securities and note-making machinery was removed to Havre after the fall of Liege. At the same time all other Banks were forbidden to issue notes, but later under threats from the German Government either to make its billets de requisition legal tender to an unlimited amount or to set up a branch of the Reichsbank as the state Bank of Belgium unless arrangements were made for providing Belgium with the bank notes. an agreement was reached wherby the Société Générale de Belique undertook to supply the country with bank notes, and to deposit security for the notes with the Banque Nationale. Further, the agreement provided that the notes of the Société Générale should be re-exchanged at the request of the bearer for notes of the same value of the Banque Nationale within 3 months after the conclusion of peace. What the position of these unauthorised notes will be at the end of the war is a disputed point, some holding that the German Government will have to redeem them in gold at par.

In regard to advances from the Allies, we know that France made a loan of 50 millions to Belgium in Oct., 1914, and on Nov. 16, 1914, Mr. Asquith announced that England had loaned another 50 millions to Belgium, free of interest, "at any rate till the general conclusion of the war." Since that time, however, the Allied Treasuries, though sometimes estimating the total advance to the different small states, have never disclosed the exact sums assigned to each of these countries.

7. Serbia.

Any discussion of the details of war finance or of general financial conditions in any of the Balkan States would depend almost wholly on guess-work. We can form general impressions of how bad things must be, but we cannot fill in the details. Mr. Lloyd-George, speaking in the House on Feb. 15, 1915, put the case of Serbia in a nutshell, when in emphazising the necessity of financial support to the weaker members of the Alliance, he pointed to Serbia as a land "with the population of Ireland, a people of peasants maintaining an Army of 300,000 and fighting her third great war within two years, fighting it with great resource and courage and bravery but with no reserves of wealth." She has now, he continued, no exports with which she can purchase munitions of war outside, and she has hardly any manufactures of her own. Since he spoke she has suffered the martyrdom of Belgium.

To give the exact figures, her area is 34000 sq. miles; her total foreign trade in 1912 amounted to only $38,000,000, and her national revenue to $25,000,000. The Balkan Wars had caused a great loss of men and capital and had occasioned much misery and poverty, but the largely agricultural character of the population and the prevalence of peasant proprietorship had enabled production to go on through all the fighting, and had enabled Serbia in common with her neighbors to show a remarkable economic resistance. Her public debt, however, which had previously been $112,000,000, was swollen by war expenditure to the extent of another $100,000,000. In the first few months of the present war, we know that France advanced $18,000,000 to Serbia, and England $4,000,000. These advances have gone, doubtless, in increasing amounts, but as to their total we have no indication whatever.

8. Japan.

Japan's task in the great war was a relatively small one, and the burden she had to bear correspondingly light. On Aug. 23rd she declared war on Germany, and by Nov. 7 she had forced the unconditional surrender of Tsingtau. By the end of that same month a Japanese squadron had placed the German South Sea Islands under Japanese military occupation. Japan's task was now practically finished. The increase of the army by two divisions, however, and the little unpleasantness with China, added to her financial burdens.

The first effect of the outbreak of war, bringing as it did the collapse of the European Stock Exchanges and the breakdown of the foreign remittance system, was very serious in Japan and was aggravated by the apprehension that the Government would sooner or later be compelled to take part in the operations. Shipping was entirely disorganised, freight and insurance rates soared, business exchange with London ceased to work, and trade with Europe was paralysed. All imported goods increased rapidly in price, while exported goods as rapidly declined—leading later, curiously enough, to attempts to remedy this low cost of living, by the Government stepping in to buy rice in order to keep the price up. Unemployment was rife in many industries and money was extremely tight. By September, however, trade and industry were beginning to recover and were adjusting themselves to the new conditions. From this time onward, conditions continued to improve, thanks in large part to the influence of the orders for supplies and munitions from Russia.

In November, the Minister of Finance reviewed the financial position of Japan in a speech which has been thus summarised by the Economist:* "He said that at a moment when the Government had carefully mapped out a financial and political programme of which the watchwords were economy and progress, a calamitous war had broken out, in which force of circumstances had compelled Japan to bear her part, with the inevitable consequence that a great part of a beneficient programme had had to go by the board. Happily the Government found itself able to meet the special expenditure involved by this unexpected crisis without a resort either to new taxation or to loans. Large reductions had been effected in expenditure, and many projected works had been postponed in order to provide for naval replenishment and for the creating of the two new Army divisions for Korea. A reduction in the Sinking fund was to be used for the construction of railways in Korea and elsewhere. The war, he added, had brought

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*Jan. 9, 1915, P 61.

a heavy decline in revenue; and a large issue of Exchequer bills, possibly to the extent of 8 millions sterling, will be required next year." He refrained however from disclosing the actual cost of Japan's military operations. The only measure we have of this cost is the increase in the extraordinary revenue for the year 1914-15 (ending March 31st), an increase which amounted to about $40,000,000. In addition the ordinary revenue showed a decline of $19,000,000 from the total of $202,000,000 for the previous year. This decline was due chiefly to a falling off in the receipts from Customs and the liquor tax. On the whole this is not a bad showing for a time of storm and stress, and if the figures could be brought up to date the showing would be much more favorable. For the war has brought its compensations to Japan. The profitable war munitions trade with Russia has kept her credit from falling (Japanese $4\frac{1}{2}\%$'s redeemable in 1925 have fallen only $\frac{3}{4}\%$ since July, 1914) and has enabled her month by month to strengthen her financial resources. An expansion of exports has been accompanied by a great contraction of imports. Thus in the first eight months of 1915 Japan had a favorable trade balance of $28,000,000 as compared with an excess of imports of $27,000,000 in 1913, and $60,000,000 in 1912. The balance sheet of the Bank of Japan shows the influence of this reversal of Japan's trade balance. There has been a slight decrease in notes and advances, and unlike last year a considerable increase in deposits ($44,000,000). Gold held has decreased slightly during the year, but is still nearly 40% of demand liabilities. More significant is the increase of $57,000,000 in acounts with other banks which seem to indicate that the foreign balances of the Bank are exceptionally large. These increased balances are probably due to the payments made in London by Russia for Japanese munitions, and undoubtedly are in part the explanation for the recent demand for Japanese Government bonds in the London money market and for the announcement that the Japanese Government intends to redeem the Japanese Treasury bills now held in England. If the favorable trade balance keeps up, we may hope to see Japan still further strengthening her position, and paying off more of her national debt, which, though decreasing since 1911, still stands at the extremely high level of $1,250,000,000.

C. FINANCING THE ENEMY.

1. Germany.

When we turn to our enemies, we find a partial parallel to England's position towards the Entente Powers, in the part which Germany is playing for the Central Empires and their Allies. In the last analysis, Germany is the reserve of all her

Allies; not only does she provide the organizing genius in all spheres and the fighting leaven in the military sphere, but also wherever financial support is needed by any of her Allies, she at once assumes the burden. When the credit of her friends diminishes, she endorses their checks; when it disappears altogether, she hands them over the money from her own purse. In performing this function, and especially in meeting her own financial burdens, the qualities which have characterised Germany have been preparedness and efficiency. This preparation and organisation, almost as complete on the financial side as on the military, is part of the tribute which must be paid to German thoroughness. The mobilised miliards of marks are almost as essential as the mobilised millions of men. Every mark has therefore been mobilised and assigned to its proper function,—or functions, and, as one German banker put it, "has been squeezed until it shrieks."

But neither the previous preparation nor the present efficiency has been quite perfect, and we should beware of being hypnotised by the current German myth of a superhuman machine driven by inhuman and therefore infallible hands. "The machine is a good one," concludes Mr. Keynes, after a review of a number of articles by German economists on their economic and financial mobilisation for the war, "but has by no means moved with such uncanny smoothness, as we come too easily to believe when it is hidden from us by a curtain of silence." [1]Hers is rather only the relatively greater efficiency of a nation, which sets up a well-defined goal for which it believes no sacrifice is too great, which is willing to and for a generation does devote all its energies to preparation and organization for the race towards that goal, and which finally chooses the time to fire the pistol shot which starts the race.

The Initial Crisis.

The phenomena of the world crisis which accompanied first the threat and then the outbreak of Armageddon differed little in their German guise from the form they took in either England, or France or Russia. The severe monetary panic,[2]

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[1]J. M. Keynes, in Economic Journal, Sept., 1915, p. 452.

[2]"On July 18th last, the Dresdner Bank caused a great commotion by selling its securities and by advising its clients to sell their securities. This was recognized as the first semi-official intimation of a probable European conflagration, and Berlin became apprehensive. War was declared between Austria and Servia on the 28th, people were seized with panic, and great runs took place on the Reichsbank for gold, and on the Joint Stock Banks of Germany for gold or notes. The Reichsbank

the "runs" by depositors on the banks, the hoarding, the currency famine, and the collapse of credit generally,—these all came to Germany, and were met by the efficient "plans for the financial mobilisation of the country, thought out and prepared down to the final details by all the institutions concerned."[3]

The depreciation of values on the stock exchange had also been foreseen, but the universal closing down of Stock Exchanges (including that of Berlin), the complete breakdown of foreign remittances, and the extent to which trade and industrial disorganization went, seem to have taken their financial experts and their theorists as much by surprise as they did ours. In fact the German professors were busy for the next two months devising methods for effecting a fundamental reorganization of industrial activity which had been decreased by nearly 50% or double what was necessitated by the withdrawal of labor to military uses. But this whole problem of unemployment as well as the rise in prices, the experience with maximum prices, and the fluctuations in the foreign exchanges due to trade dislocation will be dealt with in later parts of this Bulletin.

In one sense Germany escaped the full force of the financial crisis and consequently avoided some of the emergency expedients which had to be adopted in London. By a curious paradox the fact that she had been a debtor nation trading largely on borrowed capital gave her when war broke out an immense and immediate advantage over Great Britain and France. She simply did not pay her debts and hence found herself in possession of the goods without having to discharge the obligations she had incurred—at least not till after the war. London discounting houses on the other hand found themselves with a large quantity of worthless German paper in their vaults, and heavy liabilities to the rest of the world. To save British credit it was necessary for the Government to guarantee the payment of foreign acceptances. Germany did not have to do this, simply because the balance of indebtedness, either by accident, or by malice aforethought (as some suggest because of the discounting of German bills at the London Banks before the declaration of war), was very largely in her favor.

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lost 10 millions sterling of gold or thereabouts."—E. J. Holden, in annual address as Chairman of London City and Midland Bank. Not only was the restriction of credit complete and general, but in the first days of August, many of the great Banks refused to pay out to depositors more than 5% of their accounts.

[3]President Havenstein of the Reichsbank.

Remedies Adopted.

The measures which were actually taken can only be briefly summarized. Carefully prepared in the form of bills by a committee under the guidance of Von Riesser, they were all adopted unanimously by the Reichstag on Aug. 4th:—

(1) Treasury notes (Reichskassenscheine) and Reichsbank notes were made "lawful money"; that is to say, specie payments were suspended, and these notes had no longer to be redeemed in gold. The Treasury notes (in denominations of 20 and 50 marks, or say roughly \$5 and \$12.50) were the only paper money issued directly by the German Empire. Their maximum amount had been raised from \$30,000,000 to \$60,000,000 by an Act of July 13, 1913, and this limit was increased on Mar. 22, 1915 by the authorization of an additional \$30,000,000 of 10 mark notes, entirely covered by Darlehnskassenscheine or by currency.

(2) The Treasury was released from its obligation to exchange subsidiary and minor coins for gold. It may be noted here that partly to supply the demand for small currency the Reischbank paid out \$83,000,000 in (subsidiary) silver coins during the month of August.

(3) The Bank Act was amended. Formerly the Reichsbank had to keep as security against its circulating notes one-third in cash and two thirds in double name short-term commercial paper. Loans to the Government could not be counted as legal cover for the issue. The new amendment, however, allowed the Bank to consider as legal security Treasury bills which mature not later than 3 months—a fictitious limitation as they can always be renewed. Further, that provision was repealed which required a 50% tax on notes issued above the authorized maximum of \$137,5000,000 (or \$187,500,000 at the ends of March, June, September and December).

(4) War Loan Banks or Darlehnskassen were established throughout the country in close co-operation with the local branches of the Reichsbank. The chief object in creating these institutions empowered to extend credit against collateral security was to relieve the Reichsbank and the joint-stock banks from the necessity of meeting the more urgent demands for credit, and especially to strengthen the former for the important role it was to play in war finance. It was essential to keep down the issue of Reichsbank notes as much as possible, as everybody knew that the attention and criticism of the world would be focussed upon the Bank and its notes. It was therefore necessary to create attendant satellites to assume the more risky burdens.

Starting without capital, these Loan Banks were to issne Darlehnskassenscheine (Loan Bakn notes) against the pledge of sound German stocks and shares up to something less than the market quotations, upon any other securities approved by the authorities, and upon non-perishable trade stock and industrial products up to from 45 to 65% of the assessed value. Borrowers moreover are liable to the Banks for payment of the loans with the whole of their property; and interest is charged at from ½ to 1% above the bank rate. Loans are made in amounts as low as $20 and run only from 3 to 6 months but are renewable.

The notes were issued at first in denominations of 50, 20, 10 and 5 marks; later 1 and 2 mark notes were authorized. The maximum issue was set in August at $375,000,000, but was raised on Nov. 11, 1914, to $750,000,000. A very important point is that these notes, though not legal tender, were declared equivalent to coin in the Reichsbank's reserve against its own notes in circulation. This assures the possibility of extending the Reichsbank's issue power in case its gold reserve should prove insufficient cover for its note circulation, as required under the fundamental Banking law of the Empire. These Darlehnskassen, we are told, have accomplished the objects aimed at in every way; they have relieved the ordinary banks and have given to business men a chance of securing advances on security on which in ordinary times money could have been raised only with difficulty; they have forestalled the possibility of allowing the Reichsbank's funds to be tied up in non-liquid collateral loans; and they have created a sort of second reserve for the Reichsbank in the event of an unusually large expansion of its circulation or a heavy drain on its gold supply for purposes of export.

(5) To take care of still more dangerous business, another type of institution was established throughout the country, the Kriegskreditbanken or War Credit Banks. Under official or semi-official auspices, these Banks have no power to issue notes, but they have their own capital which is usually small, and which is provided partly by the States, partly by municipalities, and partly by private financiers or corporations. Some of the banks are cooperative. Their capital is largely in the nature of a guarantee fund on the strength of which working funds can be got from the Reichsbank, which declared its willingness to discount their bills up to an amount aggregating 3 to 5 times the amount of their capital stock. Their object is to make loans to small people on their personal security, say up to $700 or $800, or on the guarantee of two respectable citizens, or to business concerns which have been badly hit by the war and which have neither sufficient bank credit nor pledgeable security at their disposal.

(6) The German experts have frequently boasted that they were able to weather the storm without resorting to a

moratorium. No general formal moratorium was declared, it is true, though it may be pointed out that looking at the actualities of the situation, their policy differed but slightly from that of Britain. Instead of releasing debtors for the time being from the obligation to meet their engagements, they seem to have adopted what is perhaps a more dangerous policy in the long run, that of readily supplying them with large amounts of paper money and credit wherewith to meet these engagements. Further, the legal position of international bills of exchange was exactly the same as in England, and by a proclamation of the Bundesrat on Aug. 7th, it appears that all payments could be postponed for 3 months, "Provided the situation of the debtor justified, and delay in payment did not bring on the creditor disproportionate damage."[4] This was a partial moratorium; it was probably left to the Courts to apply with considerable elasticity. Again Government officials were empowered to supervise the affairs of a business man, who was only temporarily embarrassed, without going to the extreme of declaring him bankrupt.

The Burden.

What is the magnitude of the burden which Germany has actually to bear? It is rather difficult to state with exactness. We know, however, that when the Secretary of the Treasury, Dr. Helfferich made his famous speech to the Reichstag on Aug. 20, 1915, he stated that up to that date, the Reichstag had voted $5,000,000,000 for war purposes. The fourth vote of credit which he was then asking for brought the total up to $7,500,000,000, and this again was increased to the stupendous total of $10,000,000,000 by the fifth vote of credit which was granted about the middle of December. This Dr. Helfferich calculate would carry the war on until March 31, 1916. Whether all of this money is now going as direct expenditure on the war, whether, as is probable, some is being handed over to Germany's Allies in addition to the loans by her bankers, or whether these credits fail to include certain items of war expenditure such as the enormous cost of transport borne by the State railways or the issue of paper money, we have no means of knowing, and so will have to accept the figures as they stand. They mean a monthly cost of $500,000,000, or just a third more than the entire cost of the Franco-Prussian war. Including the two war-chests, and not allowing for previous Treasury balances diverted to war purposes, Germany's expenditure to the end of 1915 may therefore be set down as over $8,550,000,000.

[4]See J. M. Keynes, in Econ. Journal, Sept., 1915, p. 445.

General Policy.

The task of meeting this tremendous expenditure is of course a difficult one, even for so resourceful a Treasurer as Dr. Helfferich, and for so rich and united a nation as Germany. In general, her financial policy seems to have been governed by the same considerations as her military policy. Like that military policy it was based on the assumption of a speedy and decisive military triumph, which would be followed by an indemnity large enough to pay her own expenditure. The refusal to increase taxation, the cavalier method of placing copious supplies of credit and paper money at the disposal of the banks and public with which to buy loans, such minor details as making the advances of the Loan Banks run for only 6 months—all these lend color to this conclusion. Given an early and speedy victory, the plan was splendidly adapted to its end; but as such hopes were rudely shattered, the dashing methods of the Imperial financiers will be found to be poorly suited to the needs of a long war, their weakness will be more than proportionately increased by every added month of war, and will aggravate the completeness of the final financial disaster which is bound to come. Though Germany is coming to realize this, to realize for instance that her chance of having to pay an indemnity is perhaps quite as probable as her chance of pocketing one, and though even Dr. Helfferich now sometimes cautions his people not to have "illusions as to the magnitude of the effort or the burden of the sacrifice still to be made by the German people," yet we find constant echoes of a faith in the old policy. Thus in one of the purple patches in the speech already referred to, Dr. Helfferich declaims: "The leaden weight of billions has been earned by the instigators of this war; in the future, let them, rather than we, drag it about after them."

Recourse to Taxation.

It has already been suggested that current taxation is no part of Germany's plan for meeting war expenditure. This policy has been pursued from the first and justified in every Budget speech. "We are unwilling," the Secretary of the Treasury told the Reichstag, "to raise by taxation the heavy burden which our people bear, so long as there is no imperious necessity for this. A heavier burdening of the consumer would, with the already high prices be as great a mistake as a heavier burdening of commerce." This confession of weakness in the financial situation would seem to give the lie to the words of the Secretary, a few paragraphs farther on, in which he boasts of Germany's financial strength and prosperity.

But before leaving the subject of taxation, it should be mentioned that in response to repeated demands, the Treasurer forecasted in his August speech, a tax on war profits,—which, however, will not be levied until after the conclusion of the war, "for only then will it be possible for those concerned to see clearly the financial changes which the war has brought to them!" The definitive Bill will not be brought down before March, but the outlines of the proposed tax are now pretty clear and reveal again the ingenious hand of Helfferich. The main principle is that in so far as property owned shows an increase since the war (using the statistics of the Defence Levy property census of Jan. 1, 1914 as a basis), all holders, individuals and trading corporations, shall be subject to a tax, probably of 50%, irrespective of the fact whether the increase is directly or indirectly concerned with the war, or not connected with it at all. Increases through inheritance are exempt. Trading corporations are required to put aside, at once, in a special reserve 50% of their excess profits since the outbreak of war. And this is the ingenious device of a hard-pressed Finance Minister,—the funds assigned to these special reserves must in every case be invested in German Government bonds. Thus Helfferich gets possession of the money at once,—before the actual levy of the tax, and since the latter is to be made payable in War Loan stock, all that will happen when it is actually levied will be that a corresponding amount of Government debt will be wiped out. We should also perhaps mention that the Prussian Diet which has just met has found it necessary to increase its taxes to meet part of its share of the war cost.

Inflation of the Currency.

Has the German Government attempted to secure the sinews of war by expanding its issues of paper money? Yes, but directly, only to a relatively small extent. The only paper money which the German Government itself issues is in the form of Imperial Treasury notes which are limited in amount, as already stated, to $90,000,000. We do not know how much of this total has already been issued, but it is probable that in the desire to withdraw gold from circulation the Treasury has probably issued something near this maximum.

But Germany, like France and Russia, is being flooded with paper money, and though the latter is not issued directly by the Government but rather takes the form of a loan by the state Bank to the Government, it may perhaps be best to deal with the general subject of currency inflation at this point, leaving the purely "loan" aspect of the question for consideration under the head of Government borrowing. At the outbreak of war, then, the expansion of credit and currency in Germany took five forms:—(1) the issue of token silver, (2) the issue of Reichsbank notes, (3) the creation of bank credits in the Reichsbank's books, (4) the issue of Treasury notes, and (5) the issue of Darlehnskassenscheine. Between July 23 and Sept. 30, 1914, the increase in each of these items was as follows:—

Token silver	$ 78,250,000
Reichsbank notes	650,000,000
Bank credits	351,750,000
Treasury notes (estimated)	45,000,000
Darlehnskassenscheine in circulation	36,000,000
	$1,161,000,000
Decrease in gold circulation	61,000,000
	$1,100,000,000

This huge increase of over a billion dollars in the purchasing power of the country in about two months was what enabled Germany to avoid a general formal moratorium and was her preparation for the flotation of the Government loan in September. But this expansion did not stop there, it has gone on to an increasing extent each month. We have not sufficient information to give with any accuracy, the total credit and currency expansion, but we can of course give the figures for the increase of the note circulation of the Reichsbank. Using in each case the bank statements nearest to July 23rd, 1914, and to December 15, 1915, we have the following comparison of the present and pre-war note issues of the Central Banks of the four principal belligerents, and of the increases in circulation during that period:—

Notes in Circulation

	July 23, 1915	Dec. 15, 1915	Increase
Reichsbank	$ 472,750,000	$1,524,945,000	$1,052,195,000 (223%)
Bank of France	1,182,380,000	2,689,900,000	1,507,520,000 (127%)
Bank of Russia	817,055,000	2,609,875,000	1,892,820,000 (232%)
Bank of England:			
Bank's own notes	$146,586,000	$175,487,000	$ 28,901,000 (20%)
Currency Notes		485,724,000	485,724,000
Total	$146,586,000	$661,211,000	$514,625,000 (350%)

This table should of course be considered only in connection with the stocks of gold held by these Banks against their note issues.

The following table furnishes us with these data:—

Stocks of Gold Held (excluding silver)

July 23, 1914	Dec. 15, 1915	Increase
Reichsbank		
$339,250,000 (=50% of note issue, and 41% of demand liabilities).	$609,440,000 (=39% of note issue, and 31% of demand liabilities).	$270,190,000 (79%)
Bank of France		
$820,880,000 (=69% of note issue, and 57% of demand liabilities).	$1,005,280,000 (=38% of note issue, and 30% of demand liabilities).	$184,400,000 (22.5%)
Bank of Russia		
$800,570,000 (=	$804,075,000 (=30% of note issue, and 25% of demand liabilities).	$3,505,000 (.40%)
Bank of England[5]		
$200,821,000 (=137% of note issue, and 49% of demand liabilities).	$255,456,000[5] (=146% of note issue, and 27% of demand liabilities).	$54,634,000 (27%)

Correlating these two tables, it may be said that the Reichsbank has done quite as well as the Bank of France, and much better than the Bank of Russia, while the Old Lady of Threadneedle Street, considering that she alone has never suspended specie payments, has an infinitely better record than any of the three others. France, it is true, has increased her note circulation by a half billion more than the increase in the Reichsbank's notes, but relatively to the ante-bellum note issues of the two Banks, the increase is scarcely half as great. Again this comparison is by no means fair to the three Entente powers, for in Germany, Reichsbank notes are only one of the several forms which the issue of paper money has taken. The Treasury notes outstanding probably amount, as we have seen, to 80 or 90 million dollars. In addition there are large issues of Darlehnskassenscheine. A large proportion of these are held by the Reichsbank, but the amount in circulation is by no means insignificant, especially at those times when the Government loans are being floated. Of a total issue of $329,-

[5]In addition to this gold held on its own account the Bank of England holds $142,500,000, or a 29.3% reserve in gold against the currency notes. This gives a total gold stock in the Bank of England of $397,-956,000, or 56.7% of the total issue of Bank of England and currency notes. It is also 28% of the Bank's demand liabilities (including currency notes).

000,000 on Dec. 31st, 1914, $112,000,000 were in active crculation. This amount contiued to increase, so that on Mar. 15, the active circulation was $146,000,000, and on Nov. 13, (our latest information) this figure had risen to $268,000,000. Making then what seems a very conservative allowance for these two forms of paper money, we find that Germany's total paper issue is about $1,875,000,000. The gold reserve would therefore amount to only 32.5% of these notes,—which is a considerably poorer showing than that made by France. The natural result of forcing this enormous amount of inconvertible paper money into circulation, giving Germany a purchasing power over three and a half times as great as in July, 1914, has been an advance in prices, and a fall in the exchange value of the mark, and the ingenuity of the German financial experts has found no way of escape from this economic sequel, even though her state of practical isolation renders her less sensitive to external values. Prices have risen from 75 to 100%, and the mark has depreciated on neutral markets by as much as 23% and though in both cases other factors have been working, yet the rise in prices and the fall in the exchanges are the best indices we have of the depreciation of Germany's currency and the decline of her credit. When peace is declared and foreign trade is once more opened to Germany, she will in all probability find her currency depreciating much more, and will be faced with the grave problem of redeeming her paper and lowering her standard of living until her export trade can meet foreign competition.

Before leaving this part of the subject, we should point out the really remarkable increase in the Reichsbank's stock of gold, though even here the record of the Bank of France is superior in that the latter institution has sought to increase its gold supply only in the last few months and during this time has gained only 75 million dollars less than the Reichsbank succeeded in withdrawing from circulation in a year and a half. By vigorous advertising, fervent appeals to patriotism, and forceful persuasion, the Reichsbank has added over $270,000,000 to its gold reserve, or over 79% of what it held in normal times. Critics say that this is very easy to do when you make your notes inconvertible and refuse to redeem them in gold, and they are right in pointing to this suspension of specie payments as the reason why the bank has been able to maintain its stock of gold. But on the other hand, the actual increase of that stock could only come as a result of the patriotic zeal of the people who were willing to exchange gold for depreciated paper. When the appeal was made, the Government promised that 'every bank or post-office would change the gold into paper without charge." The generosity of this offer is open to question, (even though accompanied by an official statement that "paper money is a substitute of full value,") when we remember that throughout the war, the mark has been depreciated from 6 to 23%, and that on Nov. 23, 1914, a statute passed by the Bundesrat made the buying or selling of gold at a premium or the export of gold a crime, punishable by a fine up to $1,250 with a year's imprisonment. The newspapers moreover were forbidden to publish their usual quotations of the price of gold in Germany, which would be an index of the depreciation of the paper currency. The increased holding of gold not only gives a firmer basis for the present huge note circulation, but it will be of immense advantage in facilitating a return to a normal monetary system. The original purpose, however,—and perhaps an important one even yet,—of suspending specie payments and mobilising the gold resources of the country was not so much to support the note issue but to commandeer the whole available gold supply as a Government war treasure to be used and exported for important Government purposes.

Short-Time Borrowing.

But like the other nations, and in accordance with her general policy which we have already outlined, Germany's chief resource has been borrowing, and that almost wholly domestic. In one respect, her loaning operations have been better managed than those of the Allies. Where France and Russia have piled up an immense mass of floating indebtedness Germany has funded nearly the whole of her war expenditure by three great loans.

As already pointed out, the first two months of the war were financed almost wholly by advances from the Reichsbank. The procedure is the same as in France: short term Treasury Bills are deposited with the Reichsbank and the latter's notes are issued in exchange. There was also available in this first phase of the war, the famous war-reserve of $30,000,000 held since the Franco-Prussian War in the Julius Tower at Spandau. This had been increased by a law of July, 1913, which empowered the Government to issue Imperial Treasury notes and thus withdraw gold from circulation. Though the law authorized an issue of $30,000,000, only $22,000,000 had been issued by the end of July, 1914. The war chest therefore amounted to $52,000,000. This, however, was not used directly by the Treasury, but was simply turned over to the Reichsbank to serve as the basis for the issue of three times the amount of Reichsbank notes. The increase of this short term indebtedness on the part of the Government, as long as reliance was placed on such advances from the Reichsbank, that is to say, until the flotation of the first great September loan, the first payment on which was made on Oct. 5th, is indicated by the increase of two items in the Reichsbank's balance-cheet, the note circulation, and the discounts of commercial paper and Treasury bills.

Thus during the period, say between the issue of the two bank statements of July 23rd and Sept. 30th, the increase in Reichsbank notes in circulation amounted to $650,000,000; and the increase in Commercial paper and Treasury Bills discounted was the still higher figure of $1,001,250,000. Neither increase is an accurate index of these short term Government borrowings, however. A large part of the increase in the seond item is due to the fear on the part of financial and business concerns of a sudden cessation of credit facilities, and a consequent rush to get large credit balances with the Reichsbank. That they were not for the most part in immediate need of cash, and that the proceeds of the discounted bills chiefly remained with the Reichsbank is shown by the large increase in deposits. We have been told, however, that of the increase of over a billion dollars in the discounts of commercial paper and trade bills, $575,000,000 consisted of Treasury Bills alone,[6] and represents therefore the extent of the Reichsbank's advances to the Government during this first or mobilisation period of the war.[7] When the first instalment of the War Loan, due Oct. 5, was paid in, (amounting as it did to $605,000,000), the Treasury simply applied the money to the payment of these Treasury Bills discounted at the Reichsbank.

The story of these operations given here in some detail illustrates the way in which the German Government has made use of short-term loans. When the market for one reason or another is not ready to absorb a huge long-time loan, they discount Treasury bills at the Central Bank and get advances in the form of notes. When this process brings too heavy a floating indebtedness, or when the market has improved, they refund these short-term loans into a huge long-term loan. The rise of the item "Discounted Commercial Paper and Treasury Bills" in the Bank's balance sheet from 661 million dollars on Nov. 7, to 1109 millions on March 15, 1915, was thus almost wholly caused by the financial require-

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[6] L. Bendix, Quarterly Journal of Economics, Aug., 1915.

[7] To get the total war exenditure of the Government during this period, you would have to add the special war reserve of $52,000,000, and the current balance of the Imperial Treasury which was devoted to war purposes.

ments of the Empire precedent to the flotation of the second War Loan. And so the story may be traced in the Reichsbank's accounts. At the present moment, the Imperial Treasury is depending largely on discounting Treasury Bills at the Bank, prior to the offer of their fourth great loan. The Reichbank's statement of Dec. 15, 1915, showed an increase in its "discounts and advances" of over half a billion dollars which is chiefly due to the Government's borrowing.

Long-Time Loans.

The preference shown by the Kaiser's Government for long-term borrowing has already been indicated. Not only does this make for stability and certainty in the financial situation, but as the long-term loans pass directly into the hands of investors instead of being absorbed by the banks, it promotes private saving. Germany has thus far floated three long-term loans, as follows:—

(1) War loan, Sept., 1914.

(a) 5% War Stock at 97½ bringing	$ 865,000,000
(b) 5% Treasury bonds at 97½ bringing ...	250,000,000
	$1,115,000,000

(2) War loan, Feb.-Mar., 1915.

5% War Stock and Treas. bonds at 98½ bringing	$2,265,000,000

(3) War loan, Sept., 1915.

5% War Stock at 99 bringing	3,025,000,000
Total proceeds	$6,405,000,000

On the face of it,—to give the devil his due—this is a remarkable achievement, the flotation of three successive loans for huge amounts, each new loan greater than the last, and issued at steadily rising prices—97.50, 98.50, and 99. Another remarkable fact is the rapid rate at which the loans have been paid in, caused largely of course by the low interest rate obtainable in the open market. Thus it is said that nearly 2/3 of the second loan and nearly ¾ of the third one were paid in on the date when the first instalments fell due. Even more striking is the total number of subscribers, and the proportion subscribed by small savers. The following table has been compiled by the Economist:—

Value of Scrip taken	No. of Subscribers: 1st Loan	No. of Subscribers: 2nd Loan	Amount Subscribed (Millions of dollars): 1st Loan		2nd Loan	
Up to $ 50	231,112	452,113	9	0.8%	18.0	0.8%
75 to 125	241,804	581,470	27.5	2.5%	63.5	2.8%
150 to 250	453,143	660,776		13.2	151.0	14.8
275 to 500		418,861	146.5		183.0	
525 to 1,250	157,591	361,459	144.5	13.0	338.5	14.9
1,275 to 2,500	56,438	130,903	112.5	10.1	264.0	11.7
2,525 to 5,000	19,313	46,105	77.0	6.9	186.0	8.2
5,025 to 12,500	11,584	26,407	102.5	9.2	241.5	18.2
12,525 to 25,000	3,629	7,742	102.5	9.2	241.5	10.2
25,025 to 125,000	2,050	4,361	79.0	7.0	162.0	7.2
125,025 to 250,000	210	325	127.5	11.4	266.5	11.8
125,025 to 250,000	361	538	71.5	6.4	110.0	4.8
Over 250,000	210	325	217.5	19.5	290.5	12.8
Totals	1,117,235	2691,060	1115.0	100.0	2265.0	100.0

Such results securing for instance nearly three-quarters of a million subscribers of amounts up to $50, ana over 3,000,000 subscribers of amounts below $500, these latter bringing in some 17% of the total of the two loans, are surely a gratifying endorsement of the policy of giving an opportunity to subscribe, to a class in the community which has up to now been passed over when Governments have found themselves forced to borrow. They certainly justified a repetition of the same methods in floating the third loan, and Dr. Helfferich's attempts to bring "all our forces into motion and action," to "bring all the Post-offices of the Empire into the work of subscrption," to allow fractional payments for the small subscriptions, to "give out intermediary certificates," and "to enlist the cooperation of employers in order that they may facilitate the participation of their workers and employees in small subscriptions," were again rewarded by causing nearly one-fifth of the third loan to be taken up in amounts under $500, by as many as 2,883,800 subscribers. This is a unique phenomenon in financial history. Finally it does not seem that of the total of nearly 6½ billions raised by these three loans, any considerable proportion represented the conversion of older loans. The second loan was expected to take up some 250 millions of old debt, but to what extent conversion actually took place in the case of this loan or its successor, we cannot say.

The question at once arises how were these huge sums raised in Germany? German financiers give several answers to this question. In the first place the war liberated much money for new investment that would have found other employment in time of peace. This was especially true of the enormous sums which were formerly used in financing foreign trade and in carrying on speculative operations on the Stock

Exchange. The increased savings from current earnings are doubtless a second factor. Thus they point to the increase of wages in many lines of employment (tho this has certainly not made up for the rise in prices); the employment of women, girls and boys, who are now breadwinners, though not self-supporting before the war; and the rigid economy that is now being practised, largely from necessity, by all Germans. In this connection the savings bank statistics are called to witness.[8] These seem to show for the year ended June 30, 1915, a doubling of deposits over the previous year, or a total of $500,000,000, and for the calendar year, 1915, the total is estimated at $750,000,000. Finally the sale of foreign securities held in Germany is shown to be another source of money for the war loans. Of American securities alone, they estimate that 300 million dollars' worth have been sold, which seems pretty high, but it is certain that large quantities of American and other securities have been converted into cash at Amsterdam and in other neutral markets.

Pyramiding of Credit.

But this explanation is not sufficient. A good deal of the success of these loans has been due to more doubtful expedients and to a kind of financial jugglery. The operations of the Darlehnskassen have already been described, and a good deal of the success of the three loans has been due to them. True, we are told that they have been playing a relatively smaller rôle with each successive loan. Thus an official German publication tells us that while 27.6% of the first payment of $642.000.000 on the first loan represented borrowings from these Darlehnskassen, only 8.6% of the first payment of $1.521, 250.000 on the second loan, and 6.5% of the first payment of $2.183,000,000 on the third loan were so borrowed. But even this represents a goodly total, and it considers only the first payments. The operations of the Kassen reached a maximum of $517.500,000 at the end of Oct., of which however nearly half, it is said, represented loans upon merchandise and for other purposes than payments upon war loans, such as financing the business of the centralized grain agencies of the government. But a large part nevertheless of German war finance partakes of the nature of "kiting." A circular sent out by the Wolff Agency, and approved if not instigated by the Minister of Finance, shows how mistaken those investors were, who thought that because they had invested their liquid resources in the first loan, they could not subscribe for the

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[8]Economist, Dec. 25, 1915.—Letter from a 'neutral' correspondent in Berlin.

second, and teaches patriotic Franz how he may "subscribe his 10,000 marks to the first War Loan and obtain an advance against it; subscribe this advance to a new loan and so obtain new scrip, and so on."* Such pyramiding of credit, such issuing of paper upon paper, though it may for a time deceive the country by providing all the appearances of prosperity (cheap money, large profits, increased bank deposits, &c.), is bound to lead to inflation and all its evils. Helfferich's theory probably is that when the Government draws the proceeds of the first loan from the banks, it is immediately spent upon paying soldiers and on the purchase of munitions and other war supplies; eventually it finds its way back to the banks, reconstitutes the private deposits which were depleted by subscriptions to the first loan, and is then ready to be transferred again to the Government in exchange for scrip of the second war loan. In this way it would seem that borrowing might go on forever without inflating the currency. This assumes that sufficient time is allowed between each loan to give time for the proceeds of the first to get back to the banks as private deposits, and that moreover the country itself produces all that is required for the war, thus enabling all of the proceeds of the first loan to come back to the banks and reconstitute the private deposits. This would require perfect management and an entire absence of friction which would never be found. Moreover, what it amounts to at its best is that the belligerent nation by the issue of I.O.U.'s is getting into its possession the whole of the stock of materials and supply of labor within the country, useful for the prosecution of war; it is paying for the cost of the war by commandeering in an indirect and recondite way its current income. When the political philosophy of a people is such as to look upon the state as something independent of and above the citizens, when its psychology is such as to allow the state to organize and control all production, to take the whole product, to ration all the citizens, and to devote to war purposes the whole surplus, then it is possible to finance a war almost indefinitely in this way, so long as the people can produce, over and above the subsistence of the nation, enough to meet the cost of the war. If the non-combatant population is unable to supply all its needs, and at the same time to provide for all the needs of the combatant population, then the whole system of war finance based on progressive borrowing becomes impossible. Economic exhaustion has set in, and it becomes necessary if the nation is to continue the war to get supplies from without. She cannot pay for these in kind, and if she cannot pay in gold or by borrowing

*Round Table, June, 1915, p. 539.

abroad, then the end is near. Germany does not appear to be near this stage as yet. The Central Empires seem to be pretty well self-contained, and the British blockade, though it has destroyed 92% of Germany's foreign trade, will not "starve" her in the literal sense. It will however hasten the end of the war by increasing all her other difficulties and hampering her effectiveness in those spheres where the ultimate decision will really lie. Of course in one sense it helps her by saving her from the necessity of financing imports on any considerable scale, and by helping to enforce the popular campaign for economy.

But when the ultimate decision does come, the financial disaster will be all the more serious because of the doubtful expedients employed. When the dream which was held before German investors vanishes, when no heavy indemnities are forthcoming and German stocks rapidly depreciate in value, then the investors who have mortgaged their real and other property with the Darleknskassen in order to invest in Government securities will suffer the usual results of over-speculating and over-trading. Germany will be in the position of a gambler who has staked everything on the chance of victory and lost. What will she do with her huge debt which if the war lasts to July 31st, 1916, will have increased by considerably over ten billions of dollars? Will she repudiate it or will she stand by it and pay an annual interest charge of half a billion dollars secured by taxing to a confiscatory degree the incomes of her taxpayers who are also her creditors? The unfortunate holders of her securities may choose either horn of the dilemma.

(2) Austria-Hungary.

Of the five chief belligerents, Austria-Hungary is undoubtedly the weakest financially. In the best of times she is a borrower and has an adverse balance of trade. She entered the war, moreover, suffering severely from the losses accasioned by the Balkan wars. On the other hand, her less highly organised industrial system is less sensitive to the shock of war, and she can at all times count on the financial assistance of Germany.

When the outbreak of war brought to her the panic phenomena which so completely deranged the money markets of Western Europe, she too found it necessary to adopt the familiar expedients,—close the stock exchanges, raise the Bank discount rate, declare a moratorium for the relief of debtors, put new currency into circulation, and limit the obligation of banks to the payment of only 30% of the checks presented and their customers' current accounts (in any case not over $40 a day each customer). On Aug. 5, the Bank Act was suspended, relieving the Bank from necessity of holding a 40% specie reserve against its note issue. Later still, Germany's lead was followed in the establishment of War Loan banks, with the power to issue notes as in Germany.

When we come to consider the cost of the war to the Dual Monarchy, we have to rely almost wholly on estimates. Less has been given to the world concerning the finances of the Monarchy than for any other belligerent. No returns of public income and expenditure and no returns of the Austro-Hungarian Bank have been published, nothing but the recent report of the Debt Commission for 1914. Last midsummer, E. J. Crammond had estimated the cost up to July 31, 1915, as $2,800,000,000, but this estimate is probably low. Considering the statement of the report mentioned above for 1914 the average monthly expenditure had reached the unexpected total of $250,000,000. Reliable French sources give $4,270,000,000 as the total cost up to the end of August, and suggest that $300,000,000 is at present a very low estimate for average monthly expenditure. Calculating on this basis for the last four months, and accepting the French estimate for the earlier period, we arrive at a total cost to the Dual Monarchy of $5,470,000,000 to the end of 1915, and for 1915 alone a cost of $4,220,000,000.

To meet this huge expenditure, Austria-Hungary has so far not had the courage to use the taxing power or the state. In Sept., however, it was announced that a modification of the court fees and of the duties on inheritances was to be instituted. In Hungary, moreover, a war supertax has apparently been levied on incomes above $4000. As however, the former changes did not come into force till Jan. 1st, 1916, and as they are expected to bring in something less than $5,000,000 a year, Austria-Hungary cannot be accused of advancing far upon a path of war finance which her Ally has branded as dangerous and unnecessary.

We know that a great expansion has taken place in the note circulation of the State Bank, but as to what extent the cost of the war has been met by this simple expedient, we are completely in the dark. On the first outbreak of Armageddon the Austro-Hungarian Bank suspended the issue of its weekly statement and has not since resumed it. Yet the services of this bank and of the joint-stock banks to the Government have been invaluable. The latter have invested very large sums of money in the war loans, and at the same time have been willing to make advances to their customers up to a high percentage of the Government debt purchased by them. Their assets and liabilities therefore show heavy increases. Even in the Monarchy itself it is generally admitted that the long-term internal loans were made possible only through wholesale inflation,, following upon heavy short-term borrowing by the

Government. The rise in prices, though of course affected by other factors, is a rough measure of the inflation due to the paper money issues. Even here satisfactory figures are not available, though we know prices have risen considerably higher than even in Germany. In Vienna official figures gave an increase of 86% for July and 98% for August, over the pre-war level.

But the chief reliance of Germany's principal partner has been borrowing, and fortunately for her the lending capacity of the people has proved greater than anyone expected. The facts in regard to the three long-time loans may be summarised as follows:—

Austria.

(1) Nov. 1914, 5½% Treasury bonds at 97½, payable in 1920 brought in	$ 460,000,000
(2) May, 1915, 5½% Treasury bonds at 97½, payable in 1920 brought in	556,000,000
(3) Oct., 1915, 5½% Treasury bonds at 93.10, redeemable 1930, brought in	948,000,000
Total for Austria	$1,964,000,000

Hungary

(1) Nov., 1914, 6% stock at 97½, payable 1921	$ 234,000,000
(2) May, 1915, 6% stock at 97½, payable 1921	225,000,000
(3) Oct., 1915, 6% Rente at 97.10, payable 1921	412,000,000
Total for Hungary	$ 871,000,000

A combined total of $2,835,000,000 raised by long-time borrowing is a credit to Austria-Hungary, but suggests that the result depends much more on financial ingenuity than on genuine investment. She has learned the arts of Helfferich. All kinds of stocks were accepted in payment and credit was granted most liberally by the banks, the state bank and the war credit banks lending up to 75% of the value of the loan at 5% interest. Then an interest yield of over 6%, not allowing for tax exemptions and other privileges, was quite tempting.

Besides this long-time borrowing, Austria-Hungary has had recourse to short-time issues. For the five months of war in 1914, for instance, the Debt commission reports that Austria's short-time borrowings, consisting chiefly of advances made by the state bank on the security of 5% Treasury bonds, amounted to $987,000,000.

Moreover, some short-term issues were placed abroad. Thus in December, 1914, it was announced that a group of German financiers under the head of the Deutsche Bank had granted the Dual Monarchy an advance of $60,000,000, secured by one-year 6% Treasury notes. A second and third loan for $125,000,000 and $75,000,000 respectively were made in August and November, 1915. These three loans failed of course to achieve their primary purpose of steadying the exchange rate between the two countries. In considering the aid given by Germany, it should be remembered that a considerable, though unknown proportion of the three internal loans was subscribed for in Germany.

But information regarding the short-time loans for 1915 is entirely lacking, though Sir Geo. Paish risked the guess that it would amount to roughly a billion dollars on September 30th, 1915.

Reviewing the position of Austria-Hungary, we can only regard the financial burden she has to bear as staggering, reaching as it did in 1915 about 10% of her national wealth and at least 85% of her annual income. If the war continues till the end of July, the total cost ($7,570,000,000) would be equivalent to 16.8% of the national wealth, 151.4% of the national income, and 757% of the annual savings. This makes no allowance for the probable fact that the national income has been decreased by perhaps a third owing to the withdrawal of 4 or 5 million men from productive industry and the complete shattering of the whole economic and industrial fabric. Adding an extra $450,000,000 of debt charges to an ordinary expenditure of $1,188,000,000 would seem to leave little hope for the creditors of the Dual Monarchy after the war.

(3) Bulgaria.

The financial affairs of Bulgaria have been shrouded in darkness, especially since she abandoned her neutrality on Oct. 14, 1915, for active participation on the Teutonic side. She had borne the brunt of the Balkan wars, and at the end her exhaustion was greater than that of either Serbia or Greece. An addition of 80 millions to her national debt and an expenditure of 260 millions on her army, and on pensions, maintenance of prisoners of war, &c., were pretty heavy burdens for a country with an area of only 43000 sq. miles, a population of only 4½ millions sadly depleted by war losses, a total foreign trade of only 73 millions, a stock of gold and silver of only 37 millions, and an ante-bellum debt of over 125 millions. Further Bulgaria had only begun to repair the destruction of property and other indirect costs of the wars when the European War broke upon her. Her prodigious losses in men and property for a while constrained her Government not to take part in the larger conflict.

In August, 1914, she was forced to declare a general moratorium, postpone the payment of interest to French and Russian creditors, prohibit the export of foodstuffs, and finally, because of the unprecedented rise in the prices of all necessaries, to fix the prices of staple articles throughout the country. With practically all her trade outlets closed, her foreign trade practically disappeared, and as a result her revenue from Custom Receipts had declined by more than 90%. Her National Bank weathered the crisis fairly well, chiefly because of the state loan contracted in Berlin in June, 1914.

What her actual expendture on the war has been and how it has been met we do not know. Mr. Hirst's guess of $300,-000,000 to the end of July, 1916, seems exceedingly small. The money has probably been raised by the familiar methods employed during the Balkan Wars,—advances by the State Bank; requisition bonds, and the sale of Exchequer bonds. German funds have of course been drawn on to a very large extent. Early in 1915, $30,000,000 was handed over by a group of Austro-German bankers (partly in fulfilment of a pre-war contract) and a newspaper despatch of November 25 reported that Bulgaria had arranged a second loan from Berlin banks on favorable terms, one provision being that there shall be no demand for payment unless all the war aspirations of the Bulgarians were realized. About the end of December, the Sobranje or Bulgarian Parliament voted a war credit of $100,-000,000 and a second credit of $6,000,000 for the relief of needy soldiers. The Reform Socialists abstained from voting but the other parties pledged their support, declaring that "the terms of peace will in every respect correspond to Bulgaria's sacrifices."

(4) Turkey.

With the information at our disposal it would serve no useful purpose to attempt to disclose the mysteries of Turkish finance. It is sufficient to point out that the initial panic was especially severe and the disorganization of trade and industry almost complete; that Turkey has already obtained some $280,000,000 by loans in or advances from Germany; that her share of the war expenditure up to July 31, 1916, would roughly total $750,000,000, bringing an extra annual debt charge of $45,000,000 to a normal annual expenditure of $170,000,000 (some $35,000,000 of which was secured by borrowing); and that her participation in the war spells financial disaster alike to Turkey and her creditors.

C. Conclusion.

In concluding we may summarize the facts which have been discovered:—

	Cost of war to Mar. 31, 1916 (Millions)	Percentage which thisbears to National Wealth	National Income	National Savings	Present Daily Cost (Millions)	Approx. Debt Mar. 31,'16 (Millions)
Great Britain	$ 8,533	9.8%	77.6	426.6	$22	$11,000
France	6,535	10.4	87.6	525.6	18	12,900
Russia	5,958	9.9	85.1	476.6	12	10,600
Italy	1,250	3.5	31.2	200.0	4	2,500
Entente Countries ..	$22,276	7.0	60.0	410.6	56	37,000
Germany	$10,000	12.5	100.0	571.4	17	12,000
Austria-Hungary . .	6,370	14.2	127.4	637.0	10	10,200
Bulgaria	(200)	9.0	80.0	533.0	1	400
Turkey	(600)				2	1,350
All Belligerents	$39,446	9.0	70.2	479.6	86	60,850

The table must be allowed to tell its own story,—of the magnitude of the total expenditure thus far, of how that expenditure is being doubled by each added year of war, of how national debts have increased from 25 to 60 billions and will go on increasing by some 32 billions yearly, and finally of the present financial position of the different countries as indicated by the ratio of war costs to national wealth, income, and savings.

W. C. CLARK.

January, 1916.

II.

FOREIGN TRADE AND EXCHANGE

Foreign Trade and Exchange as Affected by the War.

If Britain's "silver bullets" do not decide the war they will, at least, have a decisive influence upon the outcome of the struggle. Economic power will, in the end, count for as much as military power. It is essential, therefore, that the economic factors be carefully considered, if one is to form an intelligent opinion on the course of the war. Two of these factors will be examined here—namely, the foreign trade of the belligerents and the state of international exchange. The latter will be discussed first.

A preliminary remark or two may be made concerning the forces that operate in determining exchange rates. Exchange, like any other economic good, has its price determined by demand and supply. On the demand side the following forces are operative:

1. The need for exchange with which to pay for imports of merchandise.

2. The need for exchange with which to pay for purchases of securities abroad.

3. The necessity of remitting abroad sums due by way of interest or dividends on borrowed capital.

4. The necessity of remitting abroad freight and insurance money earned by foreign countries.

5. Money to cover tourists' expenses, and the charges of wealthy persons living abroad.

6. The need for exchange to pay off maturing short-loan and finance bills.

7. The need for meeting payment of maturing indebtedness abroad (unless the bonds are to be refunded).

8. Low money rates at home cause a demand for exchange to send capital to centres where interest rates are higher for the time.

The causes of low exchange rates are, for the most part, merely the reverse of the above; but for the sake of clearness they may be set down as follows:

1. Especially heavy exports of merchandise.

2. Large purchases of stocks and bonds by foreign countries.

3. Distrust of financial conditions existing in foreign countries.

4. High money rates at home.

5. Unprofitably low loaning rates at some foreign centre where bankers ordinarily carry large sums on deposit.

It should be observed that these several forces do not always act in a simple and direct way. There is never a time when the several forces tending to put rates up are not conflicting with antagonistic forces tending to put rates down. The actual movement of the rate represents the relative strength of the two sets of influences.

Europe's capital investments in the United States. As the most important, as well as the most spectacular, event of the war, as far as international exchange is concerned, is the emergence of New York as a great money centre, it will be necessary, if we are to have a clear conception of the situation, to review briefly the past relations of the United States to Europe, and particularly to the United Kingdom, in their financial aspect.

From the earliest times the United States has obtained capital from Europe. Up to the nineteenth century capital was imported for the development of sugar, tobacco and cotton plantations, and for mercantile purposes. In the early nineteenth century large sums of money were invested by Great Britain in the securities of the United States government, and in state and municipal government bonds. In the fifties and sixties of the last century large amounts of capital were raised in London for the construction of American railways, and for investment in federal and state government loans and shares of land, mining and other ventures. The chief borrowers, however, were the railroads. Since the early eighties the accumulation of ćapital in the United States itself has become so great that the various governments have been able to borrow at home at lower rates of interest than the rates at which they could obtain capital from the investors of Europe. Nevertheless, the amount of capital needed for the economic expansion of the republic has been so great that the American people could not themselves supply it, and large amounts were annually drawn from Europe, and particularly from the United Kingdom. It was estimated by Sir George Paish, in 1910, that Great Britain possessed about $3,500,000,000 of American securities, and that amount had been greatly increased by 1914. France held, at the outbreak of war, about $500,000,000 of American securities, and Germany something like $1,000,000,000. The amount of Dutch capital in the United States is about $750,000,000. In the aggregate, the European capital invested in the republic, up to the outbreak of war, was about $7,000,000,000.

The Floating Indebtedness of the United States. In addition to Europe's fixed investments in the United States larger sums were annually loaned to the republic to meet temporary requirements. These floating loans were mainly incurred in the spring and summer months in anticipation of produce shipments in the fall months, and were then largely liquidated. The amount of this floating debt in the form of produce bills, finance bills, loans against securities, overdrafts, etc., averaged about $400,000,000, reaching a larger sum in July and August and falling to a much lower sum at the end of September. The rate of interest paid upon this floating debt, in so far as it consisted of produce bills, was a low one, the rate of interest charged on this class of loan being less than that on any other kind of security.

Against the large amount of European capital invested in the United States must be balanced American investments in Canada, Mexico, Cuba, South America, the Philippines, and elsewhere. The amount of United States capital so invested is at least $1,500,000,000, yielding an annual income of $75,-000,000. Deducting this from the gross interest payments that the United States must make to foreign lenders, it will be found that the American people must make, ordinarily, a net payment of about $250,000,000 to other countries for interest and dividends upon capital. This sum the United States has paid, each year, by exports of produce.

Inflowing tide of gold to United States. The war in Europe has caused an almost complete reversal of the trade and financial relations hitherto existing between the United States and Europe, and particularly the United Kingdom. This is particularly noticeable in the exchange situation, and the movement of gold between America and Europe. The salient facts in connection with gold importations to the United States may now be considered.

Never before did the United States need gold less, and never before has its command over the yellow metal been so great. The need for large supplies of gold is less because of the greater efficiency of the American banking and credit mechanism brought about by the establishment of the Federal Reserve Banks; and the American command over gold is greater than ever because the markets of the United States were never so necessary to Europe as they are to-day.

Europe is engaged in destroying wealth, the United States in producing it. A small part of the expenditures of the belligerents is being placed in the United States—a small part of the total, but very great in itself. The cost of the war has been so large that even the wealthiest nations in the world—England and France—are finding it difficult to meet payments for supplies purchased on this side of the water. That, in a word, is the meaning of the low rates to which foreign exchange has gone. So many more people were selling drafts on London than were buying them that prices of sterling bills were hammered down. The supply of sterling bills was increased, while at the same time the demand fell off, and rates inevitably declined.

To put the matter in another way: pounds sterling are worth to-day so much less than normally because pounds are being used in payment for American goods to a very abnormal extent. The normal balance between imports and exports has been disturbed. England has not the goods to sell the United States in exchange for the goods she is buying from that country; and the abnormal differences between the two puts pressure on the money of the country that is buying so much more than it is selling.

That, however, does not entirely explain the situation, for the United Kingdom normally buys far more than it sells, the balance being made good by those "invisible" items of exchange which have been enumerated above. The very low rate of $4.65 for demand sterling in New York (November 15, 1915), against a normal value of $4.8665 cannot be explained in the discrepancy existing between exports and imports alone. The truth is that many countries are now making direct payments to American exporters by drafts upon New York instead of upon London, and that in itself has caused a falling off in the demand for sterling exchange.

Selling of securities of American corporations. In the week ending August 16, 1915, sterling exchange fell to $4.69, notwithstanding the fact that, in the same week, England sent to America the largest consignment of gold that ever crossed the Atlantic—$20,000,000 in round numbers. And this gold did not come alone. It was accompanied by about $30,000,000 of American securities sent to this side by the Bank of England, to be used in the payment of supplies bought in the United States.

Now it is merely stating an elementary fact to say that the financing of the foreign trade of Great Britain, France and Russia cannot be carried on indefinitely by the exportation of gold, for to do so would so weaken the banking and credit structures of these nations as to put them in jeopardy. It is essential to the prosperity of the United States, also, that Europe shall be not only financially strong, but financially sound. Some other method, therefore, than shipping gold must be found to furnish payment to the United States for war supplies sent to Europe.

The American people will, of course, take goods to the extent to which their markets can absorb, and Europe can produce, them. But after that, and after the United States makes provision for the payment of interest upon the huge sums borrowed from Europe in the past, there will yet remain, under war conditions, a heavy balance of exports from America for which the Allies must pay. What will the United States take as payment?

France and England have raised a joint loan of $500 000,-000 in the United States in an attempt to stabilize exchange and provide for the payment of war supplies, but sterling exchange remains abnormally low. It is evident, therefore, that new credits must be arranged for in the United States: and these must be created, in part at least, by returning American securities to the United States: England and France will be compelled to mobilize their security resources to that end. A recent calculation reveals the fact that the national banks alone of England, France and Russia hold about £400 000 000 of American bonds and other securities. And this, be it noted, is quite apart from the holdings of private banks and the general public. It is not surprising to learn, therefore, that London financial institutions are building up, by means of American securities, huge credits in New York in an endeavor to bring the pound sterling up to par value.

There may be difficulties in the way of bringing together, from time to time, such securities as England may need for this purpose; for, if a credit is to be effective in stabilizing the exchanges, even for a relatively brief period, it must be large. In November, 1915, English bankers arranged for a credit of £40.000,000, on this basis, in New York. After the holdings of the banks had been utilized for this purpose it was next desired to get control of American securities in the hands of private investors. The British Government has undertaken to do this. On Dec. 14. 1915, the Hon. Reginald McKenna had the second reading given to a bill for mobilizing American securities held by British investors, in an attempt to raise the value of the pound sterling in New York. Full reports are not available at the time of writing, but the *Montreal Star* (December 14) has the following cable on the measure:

London, Dec. 14.—After an explanation by the Chancellor of the Exchequer, Reginald McKenna, and a short debate, the House of Commons last night passed the second reading of the Bill empowering the Government to mobilize American and Canadian securities, by purchase or by borrowing them, to be used primarily as collateral for loans, or in case of necessity, to be sold to meet Great Britain's liabilities in the United States.

The scheme is an entirely voluntary one, and the Chancellor made it clear that the Government had no intention of swamping the American market with securities, which would be unfair to holders here, as they were to be paid for at the market price.

Trade Balance Exhausted.

Mr. McKenna explained that the usual trade balance in favor of Great Britain had been exhausted by the huge demands upon America for goods for England and her Allies, and the amounts paid in interest on foreign securities held here or earned by British shipping were not sufficient.

Consequently, in order to meet the liabilities in the United States, they were obliged to go outside the ordinary course of trade and had to borrow or sell securities.

He estimated that the securities held were valued anywhere from £300.000.000 to £800.000.000 ($1,500.000.000 to $4.000 000.000), and expressed the hope this would be sufficient "to meet our liabilities and to maintain exchange in the United States for the period of the war."

Replying to the question of Sir George Younger as to whether the Government intended to confine itself to borrowing in America upon the securities it would acquire, Edwin S. Montagu, financial secretary of the Treasury, speaking for the Chancellor, said that the Government certainly did not propose itself to either borrow or sell. Regard must be had to the position of affairs in America, and the Government proposed to do in every case what seemed most advantageous for the object in view.

Can Meet Obligations.

In presenting his plan for mobilization of American securities Mr. McKenna began with a reference to the increase in British liabilities in the United States.

"The most inveterate pessimist would not dispute our capacity to meet these obligations, provided our assets were made liquid and we were given time," he continued.

"We have immense resources.

"Despite the large amounts which are being earned by shipping and the large amounts paid in dividends and interest, these sums are insufficient to restore the balance of trade, which is now against us. In order to meet our liabilities in the United States we are obliged to go outside the ordinary course of trade."

Mr. McKenna assured the House that whatever steps were taken under the mobilization plan every care would be exercised to avoid anything that would affect the American markets injuriously or be detrimental to American financial interests.

"I have conferred with insurance companies which are large holders of the desired securities," he continued. "They fully approved the plan.

"Purchase seemed the simplest and best course where the holder of American or Canadian securities was in a position to sell outright."

Securities Sufficient.

The Chancellor said the Government had gone over the ground fully and believed the securities available would be sufficient to meet all liabilities and give the needed support to the exchange market as long as the war lasted.

He was unable at the time to give the total amount of available securities now held in this country or the length of time necessary to bring about their absorption in the United States. In the case of unquoted or unlisted securities or of any whose current quotation might not be regarded as representative of the true value, the Chancellor explained, the price will be fixed by agreement with the person offering them. The New York dollar price will be reckoned in sterling on the basis of the exchange rate of the day.

Anticipating Criticism.

Anticipating criticism of the scheme as too generous, Mr. McKenna said:

"The offer to give British credit in exchange for American securities at current market prices can only be justified by the absolute necessity for mobilizing our American securities in order to make them of the utmost value to the nation as a whole.

"While American securities to-day have a good price, it is true that British securities—owing not to any failure of credit, but to our having such large demands to meet—are comparatively low."

Mr. McKenna turned to the details of the second part of the scheme, namely, the provisions for borrowing securities whose owners were unable or unwilling to sell.

"The Treasury will accept such securities on deposit subject to the right of purchase," he said. "The securities will be transferred to the Treasury for a period of two years from the date of transfer and the lender receive all interest plus one-half of one per cent., calculated on the face value of the securities.

"The Treasury will sell the securities at any time on a request from the depositor and pay the proceeds in sterling at the exchange rate of the day or the lender may make his own arrangements for the sale on condition that the proceeds are remitted to England through the Treasury agent in New York.

"The Treasury reserves the right if it thinks it necessary, to sell all or any such securities after notifying the depositor. In the event of this right being exercised the Treasury will pay the quoted New York middle price, plus 2½ per cent. At the end of the two-year period the securities, if unsold, will be returned to the depositor in exchange for the treasury certificates.

"Arrangements will be made for dealing on the Stock Exchange in treasury certificates."

Effects of mobilizing American securities. Sir Frederick Williams-Taylor is reported in the Press as saying that the plan of the Chancellor of the Exchequer to utilize for the purpose of stabilizing exchange American securities in British hands, should prove most efficacious.

"The plan is not new, having been discussed since the outbreak of war, and would probably have been adopted sooner, but for the fact that it bristles with difficulties in the matter of detail.

"I see it stated that the securities so borrowed or purchased will be used as collateral for loans in the United States, but this must surely mean loans effected by London banks in New York, as intermediaries, and not by the Government, as the British loan commissioners on their recent visit to New York, made it quite clear at the opening of negotiations that their Government would not even consider the question of putting up collateral security."

Sir George Paish made the following statement to the Associated Press, concerning the practicability of the proposed measure:

"The plan is to enable British people to purchase and pay for the great quantities of American goods and produce they will need to buy in the next twelve months. Further, it is for the purpose of providing the allies of Great Britain with the sums they need to pay for goods purchased in the United States.

"In the past year goods bought from America have been paid for largely in gold, and still more largely in securities, as well as by the credit of £100,000,000 which American bankers and investors provided France and Great Britain a short time ago.

Too Much Gold in U. S.

"The amount of gold in the United States is now so colossal that the importation of additional amounts may lead to wild speculation. and it is undesirable in everyone's interest that a still greater amount of gold should accumulate in the United States. and desirable that payment should be made for the vast quantities of goods the allies are purchasing in securities of one kind or another or by means of additional credits similar to the one recently granted.

"I should have mentioned that some of the goods bought this year have been paid for by ordinary banking credits. but this method of payment provided a very small sum of money in comparison with the amounts provided by gold exports and sales of securities.

Britain's Heavy Task.

"Practically speaking, Great Britain has to provide all the money needed to settle the American favorable trade balance. For 1915 the excess of exports will probably reach $1,750,000,000, and after allowing the payment of interest. freights, etc., the balance in favor of the United States will probably reach about $1,350,000,000. of which about $400,000,000 will be settled in gold, $460,000,000 by the recent Franco-British loan, and the balance of about $500,000,000 by sales of securities.

"In 1916 the balance in favor of the States, in view of the great quantities of goods already ordered, may not be far short of $2,500,000,000, and, after allowing for interest and other payments, the net balance in favor of the States may be in the neighborhood of $2,000,000,000. With such a prospect it was essential that Great Britain should mobilize her American securities and make necessary preparations for payment of so great a sum.

British Securities Attractive.

"The plan of the British Chancellor is designed to provide all the money that will be needed, although possibly the American people themselves, in view of their desire to create a great international money market in the United States, will wish to invest money in British or French loans at the very attractive rates of interest which they will afford. British investors from the individual viewpoint have no need to sell their securities and would not do so were it not for patriotic reasons. A great many may lend their securities in order that the money needed to meet the trade balance in the United States may be paid, and it is obvious that the demand in the States for securities will be greatly in excess of the amounts which Britishers are likely to sell.

Enormous Buying Power.

"Indeed, the amount of money which will accumulate in the States is likely to be so great that not only will there be no difficulty in absorbing any securities which British and French investors may desire to sell, but there will probably be a big surplus for investment in British, French or other Government loans and in other foreign securities.

"In other words, the United States, by reason of its vast exports, will enjoy a greater income than it ever had hitherto, and out of this great income will have great sums for investment, both in securities which will be returned from Europe and in various new issues of securities—European, Canadian and South American—which may be offered to the American people."

While Canadian securities are included in the scheme, it is quite evident that no attempt will be made to return them to Canada for sale here. Our market could not possibly absorb them. It is likely, therefore, that only such Canadian securities as are actively traded in on the New York Stock Exchange—the chief being C.P.R.—will be sent back to America. Furthermore, the security market will not be demoralized as a result of British operations, for the United Kingdom would hardly sell in a weak market. It is evident that the securities will, as Sir Frederick Williams-Taylor suggests, be controlled by agencies of London banks in New York, the British Government itself having decided to offer no collateral as security for loans. In all likelihood new and hitherto almost untouched supplies of capital will be tapped—namely, capital in the control of individuals and banks who will be willing to grant short-time loans on collateral for which there is an active market on the New York Exchange. The experiment should prove successful if the British Government is not compelled to buy the securities at too great a price.

Gold not needed in United States. As we have pointed out, the United States does not need more of Europe's gold. A surplus gold supply not only involves waste and loss to the banks but a diminution of the country's foreign trade. It is to the interest of all concerned that Europe shall, as far as possible, remain on a gold basis. And if the drain of gold from Europe to the United States continues England, France and Russia will not be able to maintain the gold standard.

It should not be forgotten that Europe is America's best customer, and its solvency, therefore, is of vital interest to the United States. If hard conditions of payment are enforced the United States, as well as Europe, will suffer. That, at bottom, was the reason why the United States was willing to grant a loan of $500,000,000 to the United Kingdom and France. And if New York lends to English bankers on American securities the loans will, in effect, be based upon the soundness of American industries upon which such securities are based. Such loans, therefore, in ultimate analysis do not depend upon the financial strength of any of the nations involved in the war.

The $500,000,000 *American loan.* We are concerned, in the present instance, not with government loans but with the effects of borrowing on foreign trade and the exchange market. It will not be necessary, therefore, to do more than state the general conditions under which the British and French secured the $500,000,000 war loan from the United States. The members of the Anglo-French Financial Mission let it be known from the outset that they regarded any suggestion for a loan based upon collateral as beneath the notice of Great Britain and France. This point was at once, therefore, removed from debate. On the other hand, it soon became evident that American bankers could not, or would not, furnish the Allies with a billion dollar loan, as was hoped and expected.

That the United States was able to furnish a loan of $500,000,000 was in itself, however, a great achievement. As has already been pointed out the United States has always been a borrower, and not a lender, of capital; and the few foreign offerings of foreign bonds in the New York market, in the past, have not been enthusiastically received. There was, therefore, no proof available that the American negotiations could dispose of the Anglo-French bonds in the United States. Never had the investors of any nation been asked, at one time, to take such a large offering of another Government's bonds.

It was finally agreed that the net return to the two governments should be 96 per cent., and that the public offering should be at 98. As an added attraction these 5 per cent. five-year bonds carry with them the privilege of conversion at maturity into 4½ per cent. bonds, running from fifteen to twenty-five years. Great Britain and France receive $480,000,000 at once, or as soon as they need it. They will pay $125,000,000 as interest for five years, and at the end of that time must pay $500,000,000 to the United States. In other words, for the use of $480,000,000 for five years, they pay a total of $145,000,000 in interest and discount.

As has been said, the immediate effect of this huge loan upon sterling exchange rates was disappointing, and sterling continued to decline. It has been necessary, therefore, for London to arrange for new credits in New York. This is being done, as explained, by the pledge of American securities held by English investors. It has been announced recently, however, that England and France are at last able to meet their own requirements for war supplies; and if this be true, and only a small amount of new business is placed in the United States, we may expect sterling exchange to advance in 1916. In the meanwhile it should be observed that the fall in sterling exchange injures the United States almost as much as it does England. It places a heavy burden upon business, and that burden is not always carried by European countries. For example, the Italian Government cancelled large orders for wheat in the Republic, and bought Argentine grain instead, because of the high rate of exchange between Italy and the United States. It is evident, therefore, that American exporters may not only lose business but may be obliged to accept smaller prices for their commodities because of the abnormally low rate of sterling exchange in New York.

Effect of loan on foreign trade. This great loan of $500,000,000 is being used, in part, to meet British and French obligations in the United States, and in part to purchase new supplies. It is obvious that, in either case, its effects upon the rate of exchange between France and England, on the one hand, and the United States on the other, will be the same. If it is assumed that the loan will be spent on war equipment—on articles necessary to feed, clothe, equip and otherwise provide for the troops—it will be distributed, according to a computation made by the New York *Annalist*, somewhat as follows:—

Horses	$ 37,000,000
Wheat	104,500,000
Automobiles	24,500,000
Copper	42,000,000
Cotton	137,500,000
Iron and steel	21,500,000
Leather	21,500,000
Meat and dairy products	87,500,000
Tobacco	87,500,000
Wool	5,000,000
	$500,000,000

This is based on the assumption that $500,000,000 will be spent, by means of the new loan. It is evident that only $480,000,000 will be available, however, and that part of the loan will be used to meet obligations already incurred. At the same time it should be observed that the United States is obliged by plain business motives, and not merely because of sympathy or sentiment, to support the cause of the Allies. Trade with the Central Empires is dead; and the United

Kingdom continues now, as in the past, to be the Republic's best customer.

Opinion of National City Bank, New York. We cannot do better, in concluding our discussion of the American loan, than give the opinion of the Manager of the National City Bank, one of the great financial institutions of the Republic, as to why the United States should have granted this credit to Great Britain and France:

"The war has thrown all international trade out of balance, and created problems that could not arise under normal conditions. The United States is accustomed to export a large volume of products and its industries are adjusted to that state of affairs. The situation which has been developing for several months cannot be allowed to drift without danger of an interruption to exports and a congestion of products in the home market.

"It is true that a considerable amount of gold can be forwarded, and will be forwarded, in addition to any loan likely to be raised in the States, but the amount of gold that can be spared from foreign reserves is limited; and, furthermore, it is not desirable, from the standpoint of the United States, that a clearly disproportionate share of the world's gold should be drained into the United States.

"The purpose of the loan of $500,000,000, so far as United States bankers are concerned, is the protection and support of the country's regular trade, which is threatened by the unsettled state of the foreign exchanges. It has been apparent for some time that something must be done to create credits in the United States against which foreign customers can draw in payment for their purchases, or that the purchases must be reduced.

Sale of Securities.

"The sale of United States securities by foreign holders is not a definite reliance. The people who own United States securities are not necessarily the same people who want to make purchases, and, although sales are being made continually, there is no control over them or certainty about them. The governments could adopt measures to force them out, but such action would have a drastic effect that might cause disturbance in the United States.

"Moreover, all such suggestions ignore the fact that the exchange situation requires prompt action. The United States stands to-day with the largest crop in its history practically ready for market, and already beginning to pass out of the hands of producers. The latter are interested in the prices of the next few weeks or months. The United States does not want its exports held up waiting on foreign sales of United States securities. Any delay in the movement is likely to affect both the volume and value of exports. Uncertainty and confusion in the exchange situation will be a barrier between the United States and its foreign customers.

Must Be Credit Given.

"It is evident that the United States has another and different interest in this loan from that of a lender. It is interested as a country with $2,700,000,000 worth of goods to sell abroad in providing the credits by which the balances may be settled, and by which a stable basis for the entire trade may be maintained. Not only the amount of sales represented by the balances is affected, but practically all of them, at least so far as influence upon prices is concerned. And a great volume of domestic trade is directly dependent upon a free movement of the surplus products to foreign markets.

"It is held by some people that the trade will go on, somehow, because, as they say, the purchases must be made. But a one-sided trade cannot go on without the help of credit. There must be payment of some kind. When a partial crop failure occurs in one of the states, the purchases of that locality are necessarily curtailed, unless the people can command credit outside. The people of Great Britain cannot send their lands or houses, or their railways and other fixed wealth to the United States; the only thing they can do promptly is to use their government credit.

"The importance of the situation naturally is more readily comprehended in those sections of the country which are directly interested in the export trade, but it is needless to say that whatever concerns their prosperity is of moment to the entire country. A large credit can only be provided by the participation of all sections."

London and New York as Financial Centres. Up to the outbreak of war London was the undisputed financial centre of the world. The United Kingdom had at least $20,000,000,000 invested abroad; and the needs of new and old countries were financed in London. To what extent may it be expected that New York will, in the future, supplant London as a great international money market?

It is clear that the United States has had presented to it, as one of the results of the war, a great opportunity for financial and commercial leadership. This opportunity is found in the demand of the whole world for banking credit and trade with the United States, the one great Power that has not been drawn into the war.

As is well known the type of international money used in the past—aside from gold—has been the bill of exchange drawn upon London. There are many reasons why the London draft was considered the safest and best kind of short-date security. The United Kingdom has, for a century, been on an unquestioned gold basis; and its bankers had won the admiration of the world for their skill and honesty. In addition, there always was a great discount market in London, where drafts could be bought and sold. England's centralized banking system lent security to the whole credit economy of the nation. Enormous sums were available from the savings of the British people, each year, for foreign investment. Not only so, but the merchant marine of the United Kingdom was the greatest in the world, and permitted the British to carry on a direct trade with every foreign nation. These were, then, some of the outstanding reasons why London became the financial centre of the world.

Recently the United States—just before the outbreak of the war—reorganized its banking system, and brought into that system unity of action and centralized control. An attempt has been made, too, to create a big discount centre in New York, and to establish branches of American banks abroad, in South America and elsewhere, to compete with British and German banks which have hitherto occupied the foreign field. Recently, a considerable change has taken place in settlements of business transactions with foreign nations. "Dollar" credits have appeared—that is to say, drafts drawn in dollars and cents on New York instead of in pounds sterling upon London. It is difficult to say how much of this business will be retained after the war. The United Kingdom, as will be shown, has lost little of her foreign trade, and her merchant marine and trade and banking connections are still intact. Moreover, if the war should last no longer than another year the United Kingdom will again become a great lending nation. She will retain her old trade connections with Canada, the United States, South America and the East, and will undoubtedly get far more business on the European Continent, in France, Russia and Italy, than she has secured in the past. Germany will recover her industrial strength—it is in the interests of the whole world that she should do so, for a poor neighbour is not a good customer—and Britain's trade with that country will in time reach the old level. On the other hand, the United States cannot accomplish, in a year or two, what it took Great Britain to do in a century. Old-established trade and banking connections are not so easily changed. Moreover, the Republic will not, and cannot, suddenly become a lending nation, although it may be forced, during the war, to play that rôle. With its vast and increasing population, its wonderful natural resources scarcely touched, the United States will need to borrow for years to come. It may be that more direct trade relations with other countries, however, will be established by the United States, as one result of the war; and that drafts drawn upon New York will displace, in part, drafts drawn upon London. For the time being England's financial power is being used to finance the war not only for herself but, in large measure, for her allies. After the war no doubt huge credits will be available in London to finance the world's trade. That the Americans, however, expect to get a large share of this international banking business, is evident. Mr. C. Barron, owner of the *Boston News Bureau* and the *Wall Street Journal*, and one of the best-informed financiers of the United States, in an address delivered before the Northern Bankers' Association, said:

"The barter of hard coin for human productions long since passed into history. Exchanges of individuals and of nations are now conducted by credits.

"London was the great international market for credits and has carried two thousand million dollars of commercial credits. Upon these credits the international exchanges for the world's commerce have been largely conducted. The British empire has transferred exactly this amount of British credit into fixed forms of national war loans to its allies, thereby largely suspending the English international credit market.

"International trade must be supported by international credit and when this credit fails at one end of the transaction, it must be set up at the other or trade languishes.

First Security Offered.

"The United States has to-day, providentially, the financial machinery by which her food products and her factory products may go over the ocean in large quantities at very profitable prices, if she will but put her financial machinery in motion and in promotion of that trade and credit.

"Was there ever before conceived of such an offer as that made to-day to the United States? Abundant profits from agriculture, fabulous profits from factories and full rate of interests for credits—all extended to the United States, not by one nation, but from every sea coast nation of the world.

"The first and primal security that is offered in a large way is half a billion five-year notes of two of the richest nations in Europe, the representatives of the highest civilization yet organized and tested upon this planet.

"The measure of the United States' ability to grasp her golden opportunity will be in the response that is made to this first great international loan—a loan to promote international trade and international finance that can alone support international trade."

It is useless to dogmatize on the financial outcome of the war; but it is safe to predict that New York will become an important financial market for world trade, and that London will likely continue to hold the premier position.

British, French and German rates of exchange. It is difficult to discover precisely to what extent the German mark has depreciated, as far as foreign exchange can establish that fact, because German trade with the more important nations has ceased.

Keeping in mind that pounds sterling and German marks (4 marks=$0.95⅛) are quoted in dollars and cents in New York, and that, on the contrary, dollars are quoted in francs ($1=5.18⅛ francs), we find that the following are the normal rates of exchange for pounds, marks and francs, respectively, in New York:

	Export	*Par*	*Import*
New York and London	$4.88½	$4.86⅔	$4.84½
New York and Paris	5.23	5.18⅛	5.16 francs
New York and Berlin	94.50	.95⅛	96.25

The foreign exchange rates for the week ending November 22, 1915, were as follows:—

	High	*Low*
New York on London...........	4.70	4.65
New York on Paris........... .	5.91 francs	5.96 francs
New York on Berlin	.81	.80

It will be seen from an examination of these figures that, to take the lowest price of demand exchange, there has been a falling off in the value of the pound sterling of about 21 cents, and on four German marks of about 15 cents. It is easy to calculate that the loss upon German money which would be the equivalent of the pound sterling would be about 75 cents—that is to say, German money has lost five times as much in value in international business, as the English. French money has fallen off in value about as much as the German; but then it must be recalled that France is carrying on a huge foreign trade, while Germany's, except with the Baltic nations, is at a standstill. It is clear, therefore, in the light of what has been said, that Great Britain has stood the financial strain of the war in a wonderful manner.

Hon. Walter Runciman on British finances and trade. We cannot do better, in this connection, than give the opinions of the Hon. Walter Runciman, president of the British Board of Trade, concerning Britain's trade and financial power. In a recent interview he said:

"Compare Britain's financial position with Germany's. The present German financial plan is 'borrow, borrow, borrow.' The ultimate result of this will be nothing short of the absorption of the whole German wealth in war loans. The only hope of salvation suggested by Germany's finance minister is that Germany's vanquished enemies must pay the cost. This solution may be inadequate even if Germany had a chance of winning; but if she does not win, what then? Prolongation of the war makes a successful financial issue for her more doubtful, and every month of hostilities means the absorption of more of her wealth at an appalling pace. At the end, to reestablish their overseas trade, German business men will have to provide themselves with cash for what they buy abroad and will have to sell their war loan. The price, which is artificially maintained by specially constructed syndicates at present, must drop to a discount immediately the support is withdrawn.

Loans by Artificial Means.

"Germany has to support her loans by artificial means. Britain could have done exactly the same. When our first loan was floated, if we had established a powerful syndicate and forced the price to a premium by thus rigging the market, we could have floated a second loan on better terms for the exchequer.

"We rather chose methods open and straightforward. The loan is issued; it takes care of itself without official assistance; its price is regulated by supply and demand, and everyone knows the exact state of the market. This system has in it no element of trickery, nor any syndicate stock exchange devices which are the tools of the unscrupulous company promoter. Therein lies the strength of the British methods. The British investor pays for his war stock out of his fortune and savings, and the gigantic subscriptions have been been made on a sound basis. The accumulated wealth of centuries has enabled our war loans to be taken up by our own people without incurring fresh liabilities.

Can Get Gold.

"Any Englishman having a balance at the bank can withdraw the money in notes and convert those notes into gold at the Bank of England. He can pay a debt in Europe or America in bullion without let or hindrance. It never has been necessary for us to prohibit the export of gold. We are prepared to meet our liabilities on a free gold basis. Since August, 1914, Great Britain has exported £13,850,624 gold bullion and coin in the ordinary course of business, in addition to large sums exported by the Bank of England for government account, and no individual is prevented from meeting his liabilities abroad in this way if he prefers to settle by bullion transaction. Moreover, the Bank of England note is covered by gold to the extent of 200 per cent.

"As far as we can ascertain, the German note is covered by about 43 per cent. Indeed, if Germany had not refused to pay her notes in gold, she long since would have come to a financial standstill. That she refuses to pay her notes in gold is a fact that neutral countries might well note for future guidance."

German Depreciation Three Times Greater.

Replying to the question, "How do you account for the depreciation of the pound sterling in New York?" Mr. Runciman rejoined:—

"What is the explanation of the depreciation of the mark? You will see that the mark is at a discount in New York of 14½ per cent., while the pound sterling is at a discount of 5 per cent. The contrast is the more remarkable when you remember that Germany has made very small and diminishing purchases in America, whereas our purchases in America have been gigantic.

"Britain's financial strength lies in the fact that she is all the time earning income by production for herself and her foreign customers, and by carrying cargoes across the seas for vast numbers of foreign merchants in British vessels, so that by preserving her industrial and commercial activities during the war she has found two successive increases in her taxation a burden comparatively easy to carry. She is indeed paying enormous sums out of her new taxes towards the actual cost of the war. Germany dare not increase her taxation at all. Great Britain's export trade has shown amazing strength. When the war broke out her exports to Russia naturally were interrupted, and her exports to Germany, who formerly had been a great customer of hers, came absolutely to an end. In spite of this, from the first days of September, 1914, our export figures continuously have advanced from £26,674,101 in September last year to £32,308,432 in September this year. British credit is built upon the firm rock of profitable production, and her producing power is enabling her to dispense with all dodges and tricks resorted to by her weaker foe for obscuring the true position and postponing the day of reckoning. We not only finance ourselves, but, with the co-operation of France, support the Russian exchequer in her foreign purchases and provide the Belgian and Serbian governments with the funds necessary for them to preserve their national existence."

Great Britain's Foreign Trade. Prior to the current year the value of Great Britain's net imports—imports less re-exports—has only once reached £659.000 000; but in the current year the value will probably reach £900.000.000. including Government purchases; and in the twelve months to June, 1916—according to the London *Statist*—will probably reach upwards of £1 000.000.000. This would be from £350 000 000 to £400 000.000 more than usual. In September the United Kingdom's net imports were about £63,000.000, or at the rate of over £750.000,000 a year, and if to this amount be added Government imports and foreign payment of £20 000 000 per month, we arrive at an aggregate figure of about £1.000 000,000 per annum. On the other hand, the value of British exports in September was only £32,000.000, or at the rate of somewhat under £400.000.000 a year, against about £530,000,000, the highest hitherto reached. Thus the exports are now about £600 000.000 per annum less than the imports. Account must be taken, however, of Britain's income from interest, shipping, etc., which amounts to almost £400.000.000 a year; and, on the other hand, we have to note the large credits which the British people are giving to the Allied countries. The Chancellor of the Exchequer placed these for the current fiscal year at £423.000 000. Large credits have been arranged, also, for the Russian Government, in London. Great sums will, of necessity, be lent to Russia to enable that country to obtain needed war materials. When these factors are considered it will be seen that the income the British people are deriving from interest, shipping, etc., is no more than sufficient to provide the capital sums lent the Allies, the colonies and other nations. Hence it follows that Great Britain is now importing, and proposes to import goods for about £200,000.000 a year in excess of the goods it can export and the income it derives from interest and services. In addition it will lend the Allies and colonies, for this fiscal year, about £400,000,000. It is hardly likely, however, that any real difficulty will arise in paying for this excess of imports. This will be accomplished by selling foreign securities held by Great Britain, and in part by raising money in the United States.

Germany's Baltic Trade. Germany's overseas trade, except with the countries bordering upon the Baltic, has been destroyed, and now British submarine war has greatly curtailed the Baltic trade. The London *Economist* states that, in 1913—the latest year for which figures were available—upwards of 53 per cent. of Sweden's exports to Germany consisted of timber and iron ore, the rest including copper and other metals, cattle, meat, hides, etc. (The exportation of cattle, hides, and many descriptions of copper and copper articles from Sweden is now forbidden.) Iron ore alone formed about 38 per cent. of the total exports. Pig-iron, iron bars and pipes, iron and steel rails, etc., brought up the total proportion of the exports of Swedish iron to Germany to about 43 per cent. of the total Swedish exports to that country. This iron ore constituted nearly one-third of Germany's foreign supply. The other two-thirds are cut off by the war, except a relatively small quantity from Austria-Hungary and Belgium, and whatever may be secured from the large ore fields in the occupied districts of France. All these latter supplies must be greatly interfered with by the shortage of labor. The Baltic trade is very small in winter, with the exception of that by the steam ferry routes which are kept open by ice-breakers. There is another ferry route between Copenhagen and Germany, but Germany will not get any considerable supply of goods by this route. It is evident, therefore, that Germany's foreign trade by way of the Baltic will be greatly restricted as a result of the operations of British submarines.

The Trade of France. Exchange on Paris, in New York, as already pointed out, has fallen to a very low figure, and explains in part the enthusiasm with which the Anglo-French loan was received by the Chamber of Deputies. The authorization measure, which passed through the French Parliament so easily, was not confined purely to sanctioning the joint credit for $500,000,000, but had a wider scope. It authorized such similar loans in future as might be necessary, and gave the Government a free hand to conclude any form of credit arrangements abroad as might appear most desirable. The only restriction upon such future loans is that they must be raised "in accordance with the best interests of the Treasury." Holdings in such loans are to be free from all French taxes, past or present.

Aside from the importation of munitions, the most considerable item in French imports consists of grain and bread-stuffs. The Minister of Agriculture for France reported in October, 1915, that the wheat crop of the Republic amounted to 64,720,000 quintals (quintal=100 lbs.), which has been obtained from 5,692,000 hectares sown (hectare=2½ acres). In arriving at this total no account was taken of the harvest in those parts of Northern France which are occupied by the enemy. In the invaded portions the crop is thought to be about 5,130,000 quintals, which raises the total harvest of France to a little over 70,000,000 quintals, reaped from an area of 6,571,000 hectares. In 1914, according to the *Economist*, some

6,133,000 hectares were sown, and the resultant harvest amounted to 79,000,000 quintals. The rye crop amounted to 9,928,000 quintals, barley to 7,863,000 quintals, and oats to 39,462,000 quintals. During the first seven months of 1915 France imported 9,259,000 quintals of wheat, of which 6,644,000 quintals came from the United States, and 1,039,000 quintals from the Argentine. The corresponding total for the first seven months of 1914 was 11,667,000 quintals. For the whole peaceful year 1913 the total was 12,748,000 quintals. The war has necessitated a drastic change in the source of French imports of cereals. Oats, for instance, which in former years came almost exclusively from Russia, Germany and Sweden, have this year been shipped almost entirely from the United States and the Argentine.

When one considers that France has concentrated almost all its energies on the war, and that its exports have fallen off to an enormous extent, it becomes quite clear why the exchanges have turned against Paris, although France is one of the wealthiest nations in the world.

The Trade of Russia. Russian exchange in London has fallen to a very low point, cables being quoted in the first week of November at .143. (The rouble= .105,735 pounds, or, in Canadian money, .514,567 dollars. If the Russian rouble is at par, in English money, at .105,735 it is evident that, as the figures increase, the value of the rouble in exchange falls; or, in other words, more of the Russian money must be given for the English equivalent.) It will be seen from an examination of the above quotations that the Russian rouble has fallen in value almost 40 per cent. This is a serious matter for the Russian Empire, whose Black Sea ports have been made unavailable for the exportation of its huge grain supplies of wheat and other cereals to Western Europe. At the same time Russia has been compelled, owing to its slight industrial equipment, to make enormous importations of war supplies from the United Kingdom, the United States and Japan, for which payment must be made in money, and not in goods. Here again, England has come to the support of her Ally, furnishing not only immense quantities of munitions, but heavy credits also against which the Russians can draw in settling their accounts with the United States and Japan.

At present, Russia's only available seaports are Archangel and Vladivostock. The latter port, situated on a vast and admirably sheltered inlet, had at the outbreak of war only about 1,400 square yards of quay space. It had one floating crane, lifting about a ton, and warehouse space for only some 25,000 tons of goods. Since the war began great quantities of cotton for the manufacturing of explosives, lead, copper, barbed wire and machinery have passed through it, mainly from the United States. Great efforts have been made to extend its quays to take care of imports from Japan and the United States, but the work is far from complete. The *Economist* reports that by October, 1915, the port had facilities for discharging 14 ocean-going vessels at once, and that the authorities intended to provide, as soon as possible, for 40 vessels. On the other hand, the capacity of the Trans-Siberian Railway is limited by the strength of the permanent way and the character of the soil on certain sections of the line. It is reported that, unfortunately, the additional tracks and sidings laid down during the Russo-Japanese war were subsequently regarded as unnecessary, and taken up. Twelve hundred factories, employing 100,000 workers, are said to have been appropriated by the Japanese Government to the manufacture of munitions for Russia; but it is anticipated that the output will occasionally block both the port and the railway to Europe.

Archangel, Russia's outlet to the Arctic Circle, was overloaded with traffic last autumn. Since then the channel of approach has been dredged to about 24 feet for nearly thirty miles seaward, and two icebreakers were used to keep the harbour open. Forty wharves were erected at Archangel itself, and at the railway station on the opposite side of the Dwina. Many buildings in the town were hastily transformed into warehouses; and, in addition, a fixed 20-ton crane and a floating 40-ton crane were provided. The quay space is now more than 2½ miles, and 60 large vessels can be unloaded at once. The railway facilities of the port, however, are meagre. A year ago the only railway from the port was a single-track narrow-gauge line to Vologda, terminating opposite the town. This has been converted to the ordinary Russian gauge of 5 feet, and has been taken into Archangel itself. Nevertheless, it is not possible to keep the port open all winter. Owing to the influence of the Gulf Stream, however, the northwestern coast of the White Sea is not ice-bound in winter; and the Russians hope to link up Archangel with Kola, an ice-free port, and so secure goods in winter by rail from the latter port. But such a railway line can hardly be finished before the end of a year. It may be said in passing, however, that the present improvements being made at Archangel are likely to prove remunerative in times of peace, owing to the great timber trade that will, in all probability, be developed in northern Russia. In the meantime, as already noted, it is impossible to ship abroad any considerable part of Russia's enormous grain supplies, the chief exports of that nation. Therefore, the foreign exchanges must remain heavily against her unless England can furnish credits on an increasing scale to pay for the huge imports of war supplies going to the Czar's dominions.

Canada's Economic Position. In considering the exchange and foreign trade situation in Canada since the outbreak of war, it is important to bear in mind that sterling exchange rates—the most important for this country—are fixed in New York. Exchange rates are, as a rule, fixed by the country that draws and negotiates the bills. The American exporter, rather than await a remittance from abroad, obtains ready money by drawing on his customer. The importer, too, will, as a rule, arrange for making payments abroad through his own bank rather than pay a rate fixed by a foreign bank or broker who has not the same interest in his affairs. As Mr. Stewart-Patterson says: "In New York foreign exchange brokers, as they are called, act as intermediaries between buyers and sellers, calling daily on the leading bankers and exchange houses to enquire if they are buyers or sellers and at what price. A broker thus not only brings buyers and sellers together, but obtains an approximate knowledge of the general supply and demand for bills and can advise his clients accordingly. As the factors regulating the supply and demand are constantly changing he has to keep in close touch with the market and with his clients." (Foreign Exchange Arithmetic, p. 18.)

The ruling rates in New York are sent by telegraph each day to Canadian banks and brokers, and these rates are made applicable to Canada after the discount on premium on New York funds has been allowed for.

Exchange between Canada and New York went to a discount after the outbreak of war, owing to the fact that our imports from the United States largely exceeded our exports, and the balance could not be made good, as it had been for years past, by funds borrowed in London. Exchange rates have, however, slowly righted themselves until, at present, there is no longer a discount on Canadian money. The change has come about, in part, through heavy borrowing in the United States, and in part by increasing our exports and thus securing a "favorable" balance of trade. The remarkable extent to which Canada has built up credits in the United States—which in large measure have paid for goods bought in that country—is seen from the following table, which gives also the borrowings of Europe and Latin America in the American market, (Financial Times, November 27, 1915):

Foreign Loans Raised in American Market Since Outbreak of War.

The foreign loans raised in the United States since the outbreak of the European war total approximately $1,000,000,-000, as follows:—

Europe	$755,000,000
Canada	147,030,000
Latin America	44,000,000
Total	$946,030,000

The Canadian loans are as follows:—

Canadian Government 5 per cent. gold notes, 1 and 2 years	45,000,000
Canadian Pacific Railway, equipment trust notes	12,690,000
Montreal 5 per cent. 3-year debentures	6,900,000
British Columbia 1-year 4½ per cent. treasury bills	2,700,000
Can. Northern Railway 5 per cent. equipment notes	2,000,000
Can. Northern Railway 5 per cent. notes	11,500,000
Toronto Harbor 4½ per cent. bonds	1,000,000
Toronto Railway 6 per cent.	1,500,000
Toronto, City of, 5½ per cent. debenture notes	3,000,000
Alberta, University of, 4½ per cent. 10-year debenture notes	1,000,000
Alberta, Province of, 5 per cent. gold debenture bonds	4,000,000
Ontario, Province of, a 9-month loan at 3⅞ per cent.	2,000,000
Ottawa, City of, 5 per cent. 1-year notes	1,000,000
Manitoba, Province of, 5 per cent. 5-year debenture notes	5,475,000
New Brunswick, Province of, 5 per cent. 5-year bonds	1,700,000
Sault Ste. Marie, City of, 5 per cent. 30-year debenture notes	500,000
Ontario, Province of, 5 per cent. 5-year bonds	3,000,000
Calgary, City of, 3-year treasury notes	2,000,000
Saskatchewan, Province of, 5 per cent. 3-year bonds	2,500,000
Montreal Tram & Power, 2-year 6 per cent. notes	7,000,000
Winnipeg Electric Railway, 1 and 2-year gold notes, 6 per cent.	1,500,000
Quebec, Province of, 3 or 5-year 5 per cent. gold bonds	6,000,000
Quebec, City of, 5's, 1920	2,125,000
Toronto, City of, 4½ per cent. bonds, due Jan. 1, 1949 and 1955	2,500,000
Alberta City Light, 20-year 5 per cent.	98,000
Edmonton, Alberta School District, 40-year 5 per cent.	850,000
Nova Scotia, 1 year 4½ per cent. bank loan	1,000,000
Vancouver, 10-year 4½ per cent.	827,000
City of South Vancouver, 3-year 6 per cent.	750,000
Victoria, B.C., 3-year 5 per cent.	1,000,000
City of St. Boniface 200	200,000
City of Hochelaga, 28-year 5 per cent.	375,000
City of Maisonneuve, 2¾-year 6 per cent.	800,000
Miscellaneous bank loans, estimated	10,000,000
Total	$157,490,000

This huge total of over $157,000,000 of borrowings would, in itself, materially aid in placing Canada in a favorable position in the exchange market; but that position will be made stronger as our exportable surplus of grains—especially of wheat—moves to market. It is estimated that our exportable surplus of wheat alone will amount to the huge total of 228 million bushels; and as the Government has recently commandeered 18,000,000 bushels for the use of the Allies it is reasonably certain that the wheat will go to the market at a good price. Concerning Canada's grain crops, and the country's exportable surplus of wheat, the *Financial Times* (Nov. 27, 1915) says:

Canada's Exportable Surplus of Wheat.

"According to the second or provisional estimate of the production of cereal crops in Canada during the past season the total yield of wheat will be 336,258,000 bushels. After satisfying home requirements the quantity available for export is estimated to be 228,132,200 bushels, this estimate being arrived at by the following calculation:—

		bushels.
Estimated total yield		336,258,000
Average loss in cleaning, and allowance for grain not of merchantable quality, say 10 per cent.	33,625,000	
Total retained for seeding crop of 1916, say 14 million acres at 1.75 bushel per acre	24,500,000	
Required for food, say 6.25 bushels per head for a population of 8 millions	50,000,000	
		108,125,800
Balance available for export		228,132,200

The deduction for loss in cleaning and for grain not of merchantable quality is based on previous experience; the quantity estimated to be retained for seed allows for the seeding of over one million acres in excess of the present year's acreage of 12,986,400, and the quantity allowed for food is at the rate of 6¼ bushels per head, which agrees with the previous calculations of the same nature.

The largest quantity of wheat and wheat flour previously exported in any one fiscal year was 142,574,000 bushels in 1913-14. The quantity now estimated as available for export is 85,558,200 bushels in excess of this amount, and represents nearly 68 per cent. of the total estimated production of 1915."

Provisional Estimate of the Yield of Cereal Crops, September 30, 1915, compared with the Final Estimate of 1914.

Field Crops	Area		Yield per acre		Total yield	
	1914	1915	1914	1915	1914	1915
	acres	acres	bush.	bush.	bush.	bush.
Canada—						
Fall wheat	973,300	1,208,700	21.41	28.07	20,837,000	33,926,000
Spring wheat	9,320,600	11,777,700	15.07	25.67	140,443,000	302,332,000
All wheat	10,293,900	12,986,400	15.67	25.89	161,280,000	336,258,000
Oats	10,061,500	11,365,000	31.12	42.33	313,078,000	481,035,500
Barley	1,495,600	1,509,350	24.21	33.70	36,201,000	50,868,000
Rye	111,280	112,300	18.12	22.07	2,016,800	2,478,500
Peas	205,550	196,210	17.64	16.52	3,362,500	3,240,400
Beans	43,830	43,310	18.20	13.71	797,500	594,000
Buckwheat	354,400	343,800	24.34	23.56	8,626,000	8,101,000
Flax	1,084,000	1,009,600	6.62	12.48	7,174,200	12,604,700
Mixed Grains	463,300	466,800	35.36	36.69	16,382,500	17,128,500
Corn for husking	256,000	253,300	54.39	57.62	13,924,000	14,594,000

Canada's Trade for Year Ending October, 1915. That Canada's foreign trade is in a healthy condition, notwithstanding the war—or, in some respects, because of the war, is seen from the following figures, showing the country's trade for the month of October, 1915, and for the twelve months ending with that date. (Figures of the Department of Trade and Commerce, Ottawa):

PRELIMINARY STATEMENT OF THE TRADE OF CANADA FOR OCTOBER

	Month of October			Twelve Months ending October		
	1913	1914	1915	1913	1914	1915
Imports for Consumption	$	$	$	$	$	$
Dutiable Goods	35,238,192	21,061,440	22,801,957	448,967,191	327,479,486	247,228,953
Free Goods	17,143,113	14,052,340	16,713,187	225,346,035	187,106,478	174,448,264
Total imports (mdse.)....	52,381,305	35,113,780	39,515,144	674,313,226	514,585,964	421,677,217
Coin and bullion	1,041,725	52,578,669	1,924,605	5,813,365	92,855,571	56,531,364
Total imports	53,423,030	87,692,449	41,439,749	680,126,591	607,441,535	478,208,581
Duty Collected	9,198,657	5,657,871	8,201,830	116,458,689	87,897,619	83,288,392
Exports						
Canadian produce—The mine	5,802,124	5,104,440	6,669,776	58,123,916	56,477,255	56,993,485
The fisheries	2,914,726	2,166,972	2,527,616	19,204,369	19,217,145	21,723,042
The forest	4,505,067	4,935,715	5,503,343	42,749,039	42,621,760	47,808,698
Animal produce . ..	6,587,553	8,537,247	12,081,545	46,803,704	63,984,270	89,741,675
Agricultural produce	32,292,720	17,953,959	39,833,353	186,892,558	164,772,083	158,453,160
Manufactures......	5,032,608	7,131,445	12,880,731	51,201,279	65,454,730	130,848,327
Miscellaneous	9,611	53,644	542,218	116,916	268,862	3,523,858
Total Canadian produce ..	57,144,409	45,883,422	80,038,582	405,091,781	412,796,106	509,092,245
Foreign produce	3,337,691	5,652,809	4,063,483	24,836,170	46,468,035	41,455,829
Total exports (mdse.) ...	60,482,100	51,536,231	84,102,065	429,927,951	459,264,141	550,548,074
*Coin and bullion	657,785	308,328	24,462,311	17,228,157	19,862,690	118,782,516
Total exports	61,139,885	51,844,559	108,564,376	447,156,108	479,126,831	669,330,590
Aggregate Trade						
Merchandise	112,863,405	86,650,011	123,617,209	1,104,241,177	973,850,105	172,225,291
Coin and bullion	1,699,510	52,886,997	26,386,916	23,041,522	112,718,261	175,313,880
Total trade	114,562,915	139,537,008	150,004,125	1,127,282,699	1,086,568,366	1,147,539,171

***Note.**—It will be noted that the figures relating to the imports and exports of coin and bullion for the twelve months ending August, 1915, were: Imports, 1915, $56,531,364; 1914, $92,855,571, and exports 1915, $118,782,516; 1914, $19,862,690. Although it has been customary to include these figures in trade returns, the total trade figures are seriously disturbed by them in this instance and they should not be taken as an indication of the trade of Canada.

That the "balance of trade" is in Canada's favor is important during war times. Not only has the country ceased borrowing in the London market but it is making payment on account of interest by exporting goods, and not by the simple expedient of borrowing more money, as in days gone by. In addition, Canada has recently raised a loan of $104,000,000, enabling it to place a credit of $50,000,000 to the account of the imperial authorities. It is not within our province to discuss the significance of this loan; but it may be said, in passing, that the Canadian people have revealed unexpected financial power, and that they are yet a long way from the end of their resources, either in men or money. There need be no misgivings about doubling or even trebling the national debt, provided that immigration be encouraged after the war and natural resources developed. The Canadian people will carry the financial burden with comparative ease. Their standard of living will be maintained, although, perhaps, not the same standard of extravagance. In Germany, and other European countries, the standard of living will be lowered for a generation to come, and the national wealth will decline. Such must be the case inevitably; for national wealth is merely the capitalized value of the earnings of the nation. It is clear, therefore, that if the state takes more of those earnings through taxation—and Germany must do so—there will be less earnings to capitalize at the prevailing rate of interest; and there will be a tremendous slump in the value of properties all through the Fatherland. But all this in passing.

Canada's New-found Strength. A year and a quarter of war and three years of economic readjustment form the background of Canada's economic position to-day. Industrially and financially the war has set Canada upon its feet. The war has greatly stimulated production, destroyed unemployment, and created a splendid market for Canada's wheat. When the crops have been marketed it is safe to say that Canada will once more be in a position to advance—that is to say, to advance in productive output, and not in construction works, promotions and the growth of cities and towns beyond the requirements of the existing population.

Sir George Paish said recently that Canada's "plant"—equipment for production and distribution—is now complete for a ten-year period of production; and that plant is now in smoothly-working running order. What that plant can do is seen from a glance at the figures presented above, concerning this year's crop—a crop double last year's and 35 per cent. in excess of the largest previous one. Consider one outstanding fact; our 8,000,000 people have produced a wheat crop more than a third as great as that produced by the 100,000,000 population of the United States. The President of one of our banks estimates the value of the country crop this year at over $800,000,000—$100 for every man, woman and child in the Dominion. That is the kind of enterprise that is bound to lay a solid foundation for Canada's future prosperity.

To-day, also, the Canadian people are practising the virtue of economy and thrift. There has been, undoubtedly, too lavish spending on the part of the people, during the past decade, on luxuries and non-essentials; but such spending is, at present, being greatly curtailed. On the other hand, many financial critics to the contrary notwithstanding ,the greater part of the country's spending has been productive. It has created cities, factories, railways, mines and farms; it has given employment to hundreds of thousands of productive workers who have sought our shores—a rush of workers that in some years has added as much as 5 per cent. to the population of the country. And, notwithstanding the critics again, the last decade has been one of wonderful energy and application to economic activity on the part of the Canadian people. It has developed the last best West and paved the way for the coming of many millions to our fertile lands. The "boom" fortunately collapsed; but the underpinning of Canada's financial and economic fabric is stronger than ever.

The opinions of a foreign observer, especially if he is a trained observer, are always worth while. The Canadian is too close to the scene of economic activity, oftentimes, to see things in their true perspective. Mr. K. N. Robbins, Vice-President of the Farm Mortgage Bankers' Association of America, writing in the New York *Annalist*, says:

"Apart from the war, Canada's plant is ready to pay dividends, and she invites capital as a seasoned going concern and not as a construction enterprise. Canada's favorable balance of trade, which will probably amount to $100,000,000 for the calendar year, is certainly indicative of this as compared with the unfavorable balance of a quarter of a billion three years ago. Whatever may be the theoretical significance of trade balances, this is not debatable since the quarter of a billion was borrowed money. The condition of the banks, as strong as ever in the history of the Dominion, is another indication.

"But the war introduces another factor, and the only uncertain one—the uncertainty depending on the duration and progressive expenditure of men and money. Two hundred and fifty million dollars is estimated as the war expense for 1916, and perhaps half of that amount has been expended to date—a total of $375,000,000 or more if the war lasts another year. It seems stupendous for a country of 8,000,000 people.

"But the real significance of the burden of war expenditure on Canada can only be appreciated in connection with her tax-paying, debt-paying power. In developed natural wealth Canada is the richest country on the globe in proportion to her population to-day. That the interest charges on the debt are well within the power of the present population to carry, is indicated by the fact, as reported from Ottawa on Nov. 3, that the increase in revenue, plus the reduction in ordinary expenses of government, and in expenditures on capital account as compared with the corresponding seven months' period of last year, aggregated $19,000,000, or $4,000,000 more than the annual interest charges at 5 per cent. on the entire estimated war expenses for 1916. There is a margin here to work on even if imports continue to fall off."

This is high praise; but it is well within the mark. The Dominion has yet before it the whole field of personal and property taxes and of income taxes, practically untouched. It is safe to say that Canada can endure the strain of the war better than can any European country with the exception of Great Britain, and perhaps of France. The United Kingdom has enormous resources at her command. The savings of the people were actually greater, during the first year of the war, than in any previous year of her history. Britain is economically prosperous; many of her industries are keyed up to the highest capacity; and her merchant marine, disorganized as it must be in large measure because of the war transport service, is yet earning actually more than before the war, bringing in $400,000,000 a year as against $350,000,000 before the war. Canada's debt has grown greatly; but it has grown mainly because of the productive equipment added to the nation's resources. As we have already remarked, however, Canada now has an immense plant running at full capacity; enormous natural resources; and a progressive and energetic population. If immigration is stimulated after the war, the per capita debt will fall, while at the same time the gross output of national wealth must increase. Hence, the burden of taxation, great as it undoubtedly must be in the future, will not be a crushing one. And finally, it must be remembered that Canada produces what the world needs and must have—the basic products and staples of life. Therefore, the Canadian people can face the future with confidence.

W. W. SWANSON.

December, 1915.

III.

SOCIAL AND INDUSTRIAL ASPECTS.

The War and Its Effects on Industrial Life.

For anyone who attempts to depict the effects of the war in its economic aspects as shown in the lives of the great masses of the people there are two great difficulties. In the first place, it is exceedingly difficult to get accurate data, in fact with regard to Germany, very nearly impossible; and, secondly, the economic effects of the war are so far spreading and so complex that anything like a complete treatment of the subject is out of the question. Under these circumstances, all that is possible is to give a very summary outline of the whole subject, sketching rather than delineating the main features, and leaving the reader, if not with a comprehensive view of the situation, yet with some approximate idea of the world-wide effects of the struggle in its economic aspect.

This study will deal exclusively with but two aspects, namely, the rise in the cost of living and the effects of the war on the labour market: the problems of finance are not touched upon here, but are left for other writers to deal with.

We shall follow the economic consequences of the war from the first week in August, 1914, when the shock came on the world, and when all over the globe prices of all food commodities were leaping to undreamed of heights; when men and women in thousands were thrown suddenly out of employment, and when, by the temporary stoppage of the machinery of distribution, the world, in the midst of plenty, for a few days almost looked famine in the face. We shall see how the various governments of belligerents and neutrals alike, stepped in and, by vigorous legislation and proclamation, sought to allay, and in many cases were successful in stopping, this sudden soaring of all food-stuffs in price. From then on we shall see the nations gradually settling themselves into the new ways called for by the exigencies of the new conditions. We shall follow, and attempt to analyse, the labour troubles that swept over Great Britain during the first half of the year 1915, and we shall attempt to sum up the situation which confronted the world in the first months of the second year of the war.

But of necessity our study must end on a note of uncertainty; we do not know, we cannot tell, we can only dimly guess whither the world is being dragged. One thing is certain, and that is that the whole economic life of the globe cannot be violently and protractedly disturbed without very grave consequences ensuing. And that is what has happened; what the consequences will be, none can rightly tell. That they will be far reaching and permanent, none can doubt.

I. PRICES—THE FIRST PHASE.

The Food Panic—Great Britain.

Immediately on the outbreak of war a veritable panic swept over Great Britain. No one knew where the German fleet was, no one knew whether the avenues of trade for foreign food-stuffs could be kept open or not, and for a few days people rushed to the provision dealers to lay in stocks of food. In Glasgow many of the shops were forced to close at noon, so dense was the crowd of would-be buyers. In other places the smaller shops were often bought out completely by one or more eager purchasers. The consequence was that prices soared instantly, and in a very short time the nation awoke to what was happening, and it was clearly seen that unjust and serious distress was likely to be caused, and that very swiftly, to the poorer classes, who could not lay in stocks of food-stuffs. "Not only were food prices abnormally inflated, but in many districts, owing to panic orders, supplies of necessary articles of food ran out altogether," said the *Morning Post* on August 6, 1914. The whole situation was becoming impossible, and governmental action became plainly necessary.

On August 5 a Cabinet Committee, with the Home Secretary as chairman, met the representatives of certain great companies owning 3,000 distributing shops, with the Grocers' Federation, controlling 14,000 shops, and a standing committee was formed to advise as to maximum retail prices for staple articles of food. These prices were not compulsory, but "represented the opinion of experts, acting under governmental sanction, as to what purchasers might reasonably regard as the highest figures they ought to pay." [1] The first list of prices was issued on August 7, it being left to public opinion to enforce them, and the committee continued to issue price lists for about three weeks, by which time prices had become stable and the panic was over.

On August 8 a bill was hurriedly passed through all its stages, authorizing the Board of Trade, if it were of the opinion that any food-stuff was being unreasonably withheld from the market, "to take possession of any supplies to which

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[1]Bulletin of U.S. Bureau of Labour Statistics, No. 170, page 13.

the proclamation relates, and pay to the owner such prices as may, in default of agreement, be decided to be reasonable, having regard to all the circumstances, by a judge of High Court selected by the Lord Chief Justice of England." This provision was, however, not put into force, but a very drastic, and indeed unprecedented step was taken with regard to sugar. Two-thirds of the sugar supply of Great Britain is ordinarily imported from Germany and Austria, and the declaration of war cut off their supplies instantly. The wholesale price of sugar trebled within a week, and the price looked like leaping even higher. To meet this, in October the Cabinet Committee on food supplies purchased some 900,000 tons of sugar, raw and refined, at a price of £20 a ton, or a total expenditure of over eighty-seven million dollars. The leading refiners were approached, and an arrangement made for the whole body of refiners to stand aside from the raw sugar market, leaving it free for the operations of the government. The refiners were pledged to buy their sugar of the committee at a fixed price, and to sell the finished product to the dealers also at a fixed price, which would be sufficient for a fair profit. The effect of this "dashing experiment in state socialism," as the London *Nation* somewhat ecstatically called it, was rather interesting and curious. By the middle of September that quality of sugar known in the trade as "Lyle's No. 1 granulated," which was selling at 15s. 10½d. on July 27 had risen to 30s., and in spite of the Government's action all cane sugars by December were, on the average, about 70 per cent. higher in price than at the beginning of the war. Evidently something was wrong with the dashing experiment, and the cause may be seen, when it is reflected that the Government by its immense purchases kept up the prices itself, and had to retail it at a higher figure to save a very serious loss. All of which goes to show that state socialism has its dangers.

Earlier than this, on August 12, Great Britain was placed under what was practically martial law, by a royal proclamation putting into force the Defence of the Realm Act, which had been hurriedly passed a few days before by Parliament. This Act was of a sweeping character: "the competent naval or military authority and any person duly authorized by him" were entitled to take possession of any body's property, whether land or buildings, to destroy buildings, to remove trees, hedges or fences, and comprehensively "to do other acts involving interference with private rights of property which is necessary for the purpose aforesaid." The railways were taken over entire by the Government, and a board of directors of various lines appointed to manage them in the interests of the state.

Germany.

In Germany prices leaped up at once, and a panic seemed imminent, but the situation was, with characteristic thoroughness and energy, taken in hand by the Government. The police issued a simple order forbidding retailers to charge exorbitantly, or beyond the average citizen's buying powers. Any attempt to speculate or charge enormous prices was met by a prompt prosecution of the offender, confiscation of the goods, and their sale from Government warehouses. These measures were, at least temporarily, successful, although, as we shall see later, serious difficulties arose subsequently. Meat advanced hardly at all, but the situation with regard to breadstuffs was serious, since only about two-thirds of Germany's wheat supply is home grown, and the harvest of 1914 was none too good, indeed it was 15 per cent. below that of 1913, while the same was true of Austria-Hungary. The potato crop of 1914 was, however, an abnormally big one, and the famous potato bread was introduced, while in Austria an attempt was made to induce the people to mix cornmeal with the wheaten flour. This last attempt, however, was a complete failure, the people resolutely refusing to eat it. The serious nature of Germany's food problem will be referred to later in greater detail.*

France.

France, like all other countries, was subject to the first panic which sent prices soaring; but prompt action by the public authorities soon reduced the situation to a more reasonable level. Duties were remitted on importations of foodstuffs, and the municipalities fixed maximum prices on bread, flour, potatoes and the like, which were not to be exceeded. It cannot, however, be said that there has been any very severe rise in prices in France or that the situation at any time was particularly dangerous for the consumer. The reason for this is simple, namely, because France is very largely an agricultural country. Normally it exports large quantities of food-stuffs, and the shutting off of many of the avenues of export, notably to Germany and Austria, and the difficulty of transport to England, kept its food supplies in the country. The crop was got in, however, with some difficulty, as the agricultural labourers were called to the colours practically en masse, the work being left to old men, women and boys, although 20,000 naval conscripts were sent into the fields by the Government.

*The whole question of Germany's food supply is treated by Professor W. J. Ashley in a most careful and illuminating article in the *Quarterly Review* for October, 1915.

Russia.

The war came upon Russia at a time when, like her allies, she was utterly unprepared for the struggle. Her army was in process of reorganization but it was far from completed, and her domestic affairs were in a very serious condition. The Empire was, in fact, seething with discontent, her great cities, Moscow especially, were distracted with bitter and formidable strikes. Russia apparently was in no fit state to enter the struggle. The result of the declaration of war was remarkable. As if by magic all her internal discords were hushed, and the whole great nation flew to arms with inspired courage. Then followed that royal proclamation that has perhaps had no parallel in human history since the freeing of the serfs, the prohibition of the sale of all intoxicating liquors, an act which Mr. Lloyd-George, in the British House of Commons, hailed as "a phenomenon unexampled in world history, an act of the greatest national heroism, consummated, moreover, in the face of great danger." As to the lasting effects of this decree on the Russian people it is still too early to speak, although it may be said that already it would appear to have had some very striking consequences in the increased efficiency of labour, and the augmented savings of the people in the banks.

Russia being an exporting rather than an importing nation, there was no general rise in prices, even in terms of the depreciated paper rouble, but rather the other way, a quite serious fall in grain being occasioned by the shutting up of the Dardanelles and the impossibility of getting the South Russian wheat out. Except in Poland there was little or no unemployment, the calling to the colours of great masses of men, as in other countries, relieving the situation.

Other European Countries.

It would be obviously impossible to say anything here of Belgium; the story of its martyrdom has still to be written, and the facts are not yet fully known. Italy suffered very little, her population living on home-grown food-stuffs almost entirely. Holland suffered somewhat severely, an embargo being placed on the export of butter and cheese, and the government seizing the entire wheat supply of the country and distributing it at fixed prices. Switzerland felt the blow keenly, mostly in her bread supply, and a stringent law was passed, visiting with fine and imprisonment anyone attempting to extort unreasonable prices. Directions were also issued as to the milling of wheat, and a prohibition against feeding to cattle any grains suitable for human consumption. The case of both Holland and Switzerland is interesting as showing that a self-contained country, such as Italy or France, that can feed its own people, will suffer far less than one that depends on outside sources for its food-stuffs.

Canada.

In Canada the advance in prices was not very serious, the index number of the Department of Labour showing an advance of eighteen points for September, 1914, over the preceding July, while in July, 1915, the advance over the same month of the preceding year was only eight points, meat and fish having fallen considerably in price, while bread-stuffs, sugar and tea had advanced steeply.

It cannot in truth be said that there was any real panic in the Dominion or fear for food supplies, in fact not so much as there was in Australia. The Canadian people were well aware of the fact that their country could feed them, and apart from a little laying in of sugar and flour in hundred pound bags, there was no attempt by the public to take extraordinary precautions. Tea advanced sharply in price owing to cargoes being sunk by the German raiders in the Indian Ocean, but meat remained steady, and subsequently fell rapidly as winter came on.

Australia.

In Australia the blow was felt acutely, since two of the leading industries, wool and mining, were both hard hit. With Antwerp, the great continental wool market, closed, and orders from Europe stopped, the markets were in a serious state, although they subsequently recovered. Broken Hill, the great lead, zinc, and silver mines, felt the situation very severely, since the war raged over the very localities where the ore was shipped in great quantities for treatment, namely, Northern France and Belgium, while the German market, a very big one, was, of course, instantly closed. The situation among the miners was for a time very serious indeed, many thousands having to accept public relief.

In the meat trade, the depredations of the German cruisers and the dislocation of regular sailings led to a serious state of affairs by reason of the lack of tonnage in the frozen meat shipments, vast quantities of meat being piled up on the wharves; this blockade, however, passed away in course of time, as the German ships were disposed of and conditions came back slowly to more or less normal. Some considerable trouble was occasioned also in the wheat supply, drought having resulted in a light crop. In this connection it is interesting to note the action of the Commonwealth Government in taking over entirely, as a monopoly, the baking trade, in an endeavour to regulate prices. For some time there was a great deal of confusion and mismanagement in this new enterprise, it being run at a very serious loss, but later the business was regulated, and showed a good profit to the Government.

New Zealand, except for the inevitable rise in prices, suffered little.

South Africa.

South Africa, quite apart from the confusion caused by the rebellion, was very hard hit, the shortage of shipping facilities being particularly felt. The most serious effect of the war, however, was the closing down of the diamond mines at Kimberly, by which 10,000 Europeans and 62,000 natives were thrown out of employment. Arrangements were, however, made later by the De Beers Company to resume work to a partial extent. Another luxury trade, the ostrich feather industry, suffered very severely. The London market disappeared at the beginning of the war, feather merchants ceased business and discharged their employees, while ostrich farmers, many of whom had bought their farms on mortgage at inflated figures, became seriously embarrassed.

> *We can now see that the first phase was the result of the world-wide shock to trade, resulting in a momentary panic, and a sudden leap upwards in the prices of all food commodities. As the nations recovered from the temporary confusion and settled down to face the actualities of the world at war, prices dropped somewhat, and vigorous means were taken to try to check exploitation in the new state of affairs.*

II. PRICES—THE SECOND PHASE.

The course of prices can be divided into two periods; the first when they suddenly soared to unheard of heights under the influence of the world-wide panic immediately after the declaration of war, and the second when, after a temporary fall, they commenced once more to climb steadily and inexorably. The first rise in prices may be attributed to the sudden dislocation of trade, apprehension of the future and all the confusion attendant on the unforeseen state of affairs. This rise in prices was not the consequence of economic forces at work, it was the result of the extra-economic factor of panic, and thus passed as soon as the world realized that the foundations of the whole social fabric of the universe, although shaken, were not shattered. People began to pull themselves together; the newspapers denounced those who bought up food-stuffs, and in a remarkably short time, except in those countries where fighting was actually taking place, the world slipped back to a condition not very far from normal. Thus ended the first phase, but the second and more serious rise in prices soon set in. During the first few weeks people were confused and arrangements of all kinds were made temporarily, but after the first period of settling down to the new conditions, the nations came face to face with a state of war, and the experience was certainly not a pleasant or assuring one to anybody concerned. With great masses of men suddenly taken away from their former occupations, with industry only slowly adapting itself to the new conditions, and with the world occupied not in its usual avocations, but in the new and all absorbing work of war, prices began once more to climb steadily and inexorably, and although the various governments succeeded in allaying in some cases the influence of the profiteers, who seized the opportunity to benefit by the extraordinary situation, yet, on the whole, government interference has been able only to palliate, to a certain limited extent, the effects of the economic forces which hold the world in their grip.

The Rise in Prices in Germany.

How serious is the rise in prices in Germany may be seen by the following table, constructed by Professor Ashley from the official figures of the German Statistical Office and the English Board of Trade, indicating the rise in the total cost of food in Berlin and in the large towns of England, giving the several articles which go to make up the budget of a labourer's family in each country, the relative importance they actually possess in working class consumption:

Percentage Increase in the Cost of Food, above July, 1914.

English large towns:—

Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
11	13	13	17	19	23	25	25	26.5	31.5	35	36

Berlin:—

13.3	10.5	16.4	20.9	26.1	31	42.6	50.4	56.4	65	65.4	69.6

The drop of 3 points in September is attributable to the measures taken by the police to prevent speculation, but it will be seen that the effect was only momentary, and that prices soon began to climb relentlessly. The strain upon the German people is undoubtedly excessively severe. The wages of German labourers have not increased, except in the case of munition workers, and the comments of a German paper of high standing, the *Soziale Praxis*, on this point are highly significant. Writing on July 22, 1915, it said: "The reply to those who point to the increased wages of the working man as a compensation for the dearness of food is that those who earn more through the war form a relatively thin stratum; the large mass of working families, whose supporters are in millions of cases at the front, and the majority of employees, have to manage with less money, while prices of food have on the average risen at least 50 per cent., and have risen considerably more for some important food-stuffs." The consequences of this shortage are very serious. A German Conservative newspaper, writing in August, 1915, said: "Everyone who has occasion to observe the facts will perceive that among working class families the effects of under-nutrition are becoming plainly visible. Prices must be reduced soon if the working classes are not to suffer grievous physical harm." In Hamburg there were in August, 1915, seventy soup kitchens where 60,000 portions were dispensed daily at nominal prices.

Great Britain.

In July, 1915, the *Labour Gazette* of the British Board of Trade reported as follows: "As compared with the prices prevailing in July, 1914, sugar showed an advance of about 68 per cent., and fish about 64 per cent. Flour is about 50 per cent., and bread about 40 per cent. dearer. The prices of British and imported meat averaged about 40 per cent., and 50 per cent. higher respectively. With the remaining articles the average change varied, from an advance of 33 per cent. in the price of cheese, to a slight reduction in the price of potatoes. The general increase in retail prices of food since the beginning of the war, making an allowance for the relative importance of the several articles in working class households, is rather greater in large towns than in smaller places, and may be estimated at 35 per cent. for the former and at 30 per cent. for small towns and villages." The working classes were, indeed, cruelly hard hit and, according to a calculation in the *Round Table*, for June, 1915, a labouring man's family of four, which in 1899 spent fifteen shillings and eight pence halfpenny a week in food, spent nineteen shillings and eight pence in 1914, and twenty-four shillings and five pence half-penny in May, 1915, for the same commodities.

There can be no doubt that enormous profits were made by merchants and retailers. And it is a remarkable and wholly admirable fact that the great working class cooperative societies stood as bulwarks between the rapacity of the wholesale and retail merchants and their members. For instance, the Woolwich Co-operative Society sold coal at five shillings a ton less than the market prices, and when the great biscuit manufacturers raised their prices fifteen per cent., the Co-operative Wholesale Society continued to sell biscuits at the same price. Indeed, what the co-operative societies did for the nation in its hour of need has still to be told, and when it is told it will be a very striking chronicle.

Coal, for various reasons, principally the enlistment of great numbers of workers (200,000 men having joined the colours), and the difficulty of transport, rose steeply in price, especially in London, where a ton of good quality costing $6.30 before the war, cost $8.50 in February, 1915. This hit the small consumer, who purchases by the hundredweight, very hard, and the situation became very acute.

By February, 1915, the retail price of coal had risen to nine shillings above the price in September. The working class family had to pay eight pence a hundredweight more for its coal, a cruel and crushing burden, while gas increased in like proportion. A Royal Commission, appointed to inquire into the situation, although it did not bring in a very definite report, at least did show "the utterly indefensible system of profit-sharing between colliery and coal merchant, by which they practically conspire to divide any extra price that can be got out of the public."

The committee satisfied itself that, despite all the talk of lack of pit props owing to the closing of the Baltic, and of the idle miners refusing to work more than eight hours or five days a week, the cost of production at the pit mouth was only slightly increased, certainly less than a shilling a ton. Miners' wages were unchanged, and railway rates were the same. The higher cost of wagon hire, horses, fodder, and the increased wages of carters and loaders amounted to well under two shillings a ton, and it was demonstrated beyond all dispute that the whole increase in the retail price of coal deliveries to the London householder need not have exceeded three shillings a ton. And yet the public in the London district was deliberately and calculatedly plundered to the extent of six shillings a ton. The committee called upon the Government to seize the collieries; "in the event of prices not shortly returning to a reasonable level the Government must assume direct control of the output of the collieries of the United Kingdom, with a view to regulating prices and distribution in accordance with national requirements during the continuance of the war." [3]

An exceedingly interesting action of the British Government with regard to controlling the meat supplies was explained by the President of the Board of Trade, Mr. Runciman, in the House of Commons on September 23, 1915. To quote from the *Times* of September 24: "Mr. Runciman said that when war broke out there began an enormous increase in the consumption of meat. There had also been inevitably a large amount of waste, but that waste had been considerably reduced. The Board of Trade foresaw that unless something was done to control the importation of frozen and chilled meat there would be a great shortage in the supply. It was true that the price of beef was a world price. But it was also true that supplies and prices were controlled by the American Beef Trust." Mr. Runciman then went on to say that in order to cope with this situation the Government had taken over the ships engaged in the Argentine frozen meat trade, and gone into the meat trade itself, and the consequence was that they were able to supply the British and French armies with meat and have a surplus to sell for the benefit of the civil population. "In the course of the next twelve months the Board would have bought, sold and distributed beef to the value of £50,000,000; and the French Government had so much confidence in them that they had placed the whole matter of supplies in their hands."

Canada.

In Canada the rise in prices of food-stuffs has been marked, but not very serious. According to the *Labour Gazette* of Ottawa, a family which in July, 1914, spent $7.42 on food would have to spend $7.80 in July, 1915, the increase being due chiefly to the rise in flour, bread, rolled oats, sugar, tea and coffee, butter and cheese. Potatoes were, however, much cheaper, owing to a plentiful crop, and rents had dropped considerably in the better class of house property, especially in the West.

The following index numbers, for Canada, Great Britain and the United States will show the increase in prices since the outbreak of war. Figures for France and Germany are not available.

[3]The whole question of the coal trade will be taken up more particularly later.

	Canada (*a*)	Great Britain (*b*)	United States (*c*)
1914.			
July	134.6	82.4	119.708
August	136.3	87.9	120.740
September. . . .	141.3	89.3	126.975
October	138.7	89.8	123.531
November	137.5	88.8	124.340
December	137.6	91.6	124.183
1915.			
January	138.6	96.4	124.168
February	143.8	100.9	125.662
March	145.9	103.7	124.158
April	147.0	105.9	125.099
May	147.6	107.2	126.649
June	147.3	106.4	125.992
July	147.1	106.4	124.958
August	147.6	107.0	125.079
September . . .	147.2		124.684

Of the second phase in the advance in prices, we do not yet see the end, and indeed this generation may not see it. The new order of things brought with it new problems, the greatest of which was the task of feeding the nations, with so vast a number of men engaged in waging war or supplying the armies. It is more than probable that the world will see an era of high prices more severe and more lasting than ever before experienced.

III. THE WAR AND LABOUR.

The war came on the industrial world like a thunder clap. The exchanges were paralysed, Germany was blockaded, and every sea made perilous for neutral as well as belligerent shipping. The price of cotton was halved, and the Southern States of America were faced with a very serious deficit in the exceptionally bountiful crop. India faced a crisis. "The distress caused was widespread, as can be imagined," says a well-known Indian banker. The Peoples' Bank, with seventy-two branches, and much favoured by small depositors, failed and

(*a*) Department of Labour. Base 1890-1899=100 ;272 commodities included.

(*b*) Sauerbeck. Prices in 1867-77=100; 45 commodities included.

(*c*) Dun. Total cost at the first of each month of a certain quantity of about 200 commodities.

dragged down ten other banks with it, while six others went later. Several more banks failed at Bombay and Karrachi, among them the well-known Indian Specie Bank. Numbers of trading houses collapsed; the jute planters were in straits, prices leaped up, and the poor were cruelly pinched. In the Malay States a tin and rubber crisis was very severe, while all the trade in South America was brought to a dead standstill, in fact the situation among the Latin American republics was very grave for many months. The blockade in the North Sea hit Holland very hard, and in addition she has had to mobilize her forces and keep them permanently at full strength since the war began. Rotterdam and Amsterdam were crowded with unemployed workmen and Belgian refugees, and altogether little Holland spent a hard winter. In Italy there was acute unemployment in the large towns from the first, and in Spain the fruit growers suffered greatly, although Spanish industry benefited very considerably by large orders from France to factories in Barcelona and other manufacturing towns.

As months passed, although the first severity of the world-wide depression on trade was somewhat alleviated, yet things were still serious. In spite of immense war orders, unemployment in the United States during the first few months of 1915 was worse than for many years, although prosperity of corn and wheat growers set off to some extent the losses of the cotton planters. Cuba and the Philippines were very hard hit, while the Far Eastern trade with Europe and America was brought to a standstill by the dislocation of the exchanges and the exploits of the Emden and Dresden. China suffered terribly, and in addition was coerced into an unwelcome treaty by Japan, who took the opportunity to drive a very hard bargain with her, while it has been said that "Persia of all neutral countries has suffered most." Switzerland, with a large force mobilized to protect her neutrality, has suffered grievously, and her chief industry, the hotel trade, which serves the pleasure seekers in summer and winter, has dwindled to nothing, with very little prospect of a return to prosperity for many a long day.

Canada.

The disorganization of the labour market in Canada was particularly severe. Coming at a time of depression of trade and general activities, with a very poor harvest in the West, and so a smaller demand than usual for harvesters, Canada prepared for a hard winter. The call to arms, and the prompt despatch of the first contingent, did a good deal to carry off a fair proportion of the floating male population, and, as in other countries, it was the enlistment of the men thrown out of employment that saved the situation to a great degree. Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver suffered particularly severely, and for the first time in its history Canada was face to face with the problem of unemployment in the acute forms known only too well to European countries and the United States. In February, 1915, there were 30,000 unemployed in Montreal, and there was a great deal of very acute distress only partially relieved by public works and private charity. In Winnipeg, during the same month, there were 7,850 unemployed men, and the *Labour Gazette* reported for Regina that "Labour in this district has had virtually no employment. The city has started a wood yard to help out, as far as possible, the severe cases of want. Opportunities for work are not promising." In Edmonton there were over 4,000 out of work, and Vancouver suffered perhaps as severely as any city in Canada, 2,400 applicants applying daily for transient relief to the civic officers.

With the Spring came a very substantial improvement in the situation, although the West still showed a grave condition of affairs in the labour market, Vancouver having to continue relief all the Summer. There were, however, many alleviating circumstances; the colossal harvest on the prairies absorbed a great number of men, nearly 3,000 being sent by the relief agencies from British Columbia. Enlistment carried off a large number, and many went to England to help in the munition factories, while a fairly large number of Russians went to help build the military railway to the Arctic ocean. The war orders gave employment to a large number of men, and altogether Canada approached the winter of 1915, if not with equanimity, yet with confidence that the worst was over. Taking it all round, it is extraordinary that the situation was not far worse than it was, although it was bad enough. Canada felt the blow at a most inopportune moment; the cessation of the boom in the West, the completion of the transcontinental railways, the slowing down of trade and of building activities, a poor harvest,—more unfavourable conditions under which to meet a crisis could not be imagined. That Canada was not infinitely harder hit than she was speaks volumes for the inherently sound economic condition of the Dominion.

The Labour Market in England and Germany.

There can be no question that the situation in both these countries was for some time very grave. In England, during the month of August, applications to the Labour Exchanges for work increased 77 per cent., in Germany 146 per cent., and the Trades Union returns for unemployment in Germany are startling.[4]:

July, 1914	August	September	October	November
2.9%	22.4	15.7	10.9	8.2

The figures for England give nothing like such a violent oscillation:

July, 1914	August	September	October	November
2.8%	7.1	5.6	4.4	2.9

Of France it is very difficult to speak, but since practically the whole manhood of the nation was called to the colours, it is certain that the rate of unemployment, although severe, was not very serious; nevertheless it is, of course, well known that the dressmaking trade and the manufactures of *articles de Paris* were very hard hit, in fact for a long period completely stopped. A study of the two schedules for Germany and Great Britain will reveal two things: first, that the shock was felt far more severely in Germany than in England, and, secondly, that the return to normal was far slower. That such should be the case was inevitable with German commerce swept from the seas, and Germany isolated from three-fourths of the whole world. Hamburg, Frankfurt, Leipsic, and many other cities practically shut up shop, and all these cities that had thrived on the great export trade of their land came to a sudden standstill, while Essen, Chemnitz and the coal and iron districts broke into furious activity. The measures taken by the German Government to deal with this very serious state of affairs were characteristic of its calculated and yet bold financial policy. All manufacturers were able to receive an advance up to fifty per cent. of the loose stock they had at their factories, to enable them to provide the finances for wages, and by buying fresh supplies obviate any stoppage of industry. In other words, through the new credit banks set up (Darlehnskassen) credit facilities were distributed broadcast, and loans could be had almost for the asking. But in spite of this the shock to German industry was very severe; the slow return to lower figures for unemployment is a very significant piece of evidence. In spite of the immense drains on the manhood of the country, in spite of the mobilization of industrial resources, the unemployment returns sank very, very slowly towards normal. The truth is quite plain, Germany received a staggering blow in her industrial life.

In Great Britain the Government's measures to cope with the grave industrial problems before it were prompt, and, if

[4]Figures from the German Reichs-Arbeitsblatt. Berlin, 1915.

not so successful as might have been wished, were probably as successful as possible under the excessively trying circumstances. On the same day that war was declared a central Royal Commission was appointed to deal with the employment question, and four sub-commissions were set up for London, agricultural districts, urban housing, and the employment of women in trades, while at the same time two committees were set to work . The Local Government Board warned, and even besought all local authorities to keep on all work in hand, and to make preparations for future work to be commenced later if the unemployment situation became serious thereafter, while plans for future relief work were elaborated. In addition to this the school boards made arrangements for the feeding of school children on a more extensive scale, and the Prince of Wales' relief fund was started, with the object of securing subscriptions from the public for the provision of separation allowances for the wives and families of the married men at the front and in training. The response was enormous, and over four million pounds were raised for this purpose. It is needless here to go into the details of the working and organization of this fund, a subject which might well demand separate treatment, so interesting is it. But it will suffice to say that through it the wife of a private soldier, with two children, to take a typical case, receives twenty-one shillings a week; more money than many women ever received in their lives before, this sudden affluence leading in only too many cases to the outbreak of drunkenness, which so deeply shocked and disturbed the country, although the gravity of the situation was greatly exaggerated by the usual people, who take a lugubrious satisfaction in a contemplation of the depravity of the labouring classes.

The Commercial Situation in England.

The situation in England was severe, it cannot be denied. With the Stock Exchange shut, a great number of men formerly connected with it, as brokers, or clerks, were suddenly cut off from every means of livelihood: the younger men enlisted, the older men starved or tried to find employment in any direction that would at least give them food sufficient for themselves and their families. The trades hit worst were the cotton, Baltic trade, and trade in articles of luxury. It must be remembered that trade was falling before the war. The back wash had set in after months of abnormal activity; the unsettled state of domestic and foreign politics for some time previous had all combined to depress the industries of the country, and war found trade in no very buoyant state to meet the shock. The situation in the cotton trade was particularly bad. When the Liverpool Cotton Exchange shut in August the figures for unemployment among the cotton operatives in Lancashire leapt up to 17.7 per cent., and short time was general in all mills. In September the figures were 14.5 per cent., in October 9.2, and in November 6.3. The situation in October was certainly extremely bad in the cotton trade. The *New Statesman*, always exceptionally well informed on such matters, said on October 17: "Lancashire continues to be the black spot so far as unemployment is concerned, and this week's report is worse than ever. . . . We may take it there are now more than one hundred thousand cotton operatives wholly idle, and as many more earning only half wages. Probably one-half of the population of Burnley is out of work, and one-third of that of Preston. The wonderful savings of the Lancashire operatives in co-operative societies, trade unions, and different kinds of savings banks, are being heavily drawn upon, and cases of distress are multiplying fast."

On November 16, 1914, the cotton exchange reopened, and an agreement was entered into between the Governmnt and the mill owners, whereby the trade was in part financed by the Government, the details of which arrangement need not be gone into here, while in addition a provisional working agreement for the settlement of trade disputes between unions and employers in the cotton trade was concluded on December 10.

On the whole it must certainly be acknowledged that Lancashire suffered very severely at the outset of the war and for some time afterwards, the two contributing factors having been the cutting off of German trade, which was considerable, and the cessation of the supply of German dye-stuffs. Both these factors hit the woollen and worsted trades hard, too, but the West Riding of Yorkshire, the seat of these industries, did not suffer to such an extent as Lancashire for it benefited enormously by the Government demand for uniforms and military clothing. In the furniture trade, one which may be classed among the "luxury trades," unemployment was very general, in fact, it may be said that this trade was exceptionally hard hit, although, the members being comparatively few, the effect in general trade conditions was not so serious. Other trades which suffered severely were building, cycle, and motor,[5] and the confectionery trades, the last three being in the category of luxury trades.

By the second week in November the first severity of the unemployment problem had been met, and the Board of Trade

[5]The automobile trade was subsequently taken over by the Government for military purposes.

was able to announce that the figures for unemployment were normal. Speaking of this, the *New Statesman* on November 21 said: "The reduction to this normal level is not so much due to the increase since August in the volume of business, though there has been a steady increase not wholly caused by Government orders, as to the successive withdrawals from the labour market of the men taken into training. The success of this method of dealing with an unparalleled shrinking of employment has indeed been complete. Without it we should have had a million and a half men standing idle, falling off in health and character, and steadily going to the bad." In this connection, however, it is somewhat curious to note that in enlistment among the trades worst affected there was no apparent relationship between enlistment and the numbers of unemployed, and that industries that were least affected sent most men in proportion to the numbers employed. For instance, in the two trades which were most seriously affected of all, the cotton and furniture industries, only 9.6 per cent. of the cotton operatives, and 13.5 of the furniture workers enlisted, while in the leather trade, which benefited more than any other by war conditions, 16.6 per cent. of the men engaged joined the colours. It may be mentioned that among government office employees 15 per cent. enlisted, and among London clerks 18.5 per cent. Among railway employees the enlistment was so heavy that the companies were compelled to put pressure on the men to stay and work the railways, and the extraordinary manner in which skilled workers in steel and iron, and also coal miners responded to the call, caused a very serious situation by reason of shortage of labour in these vital trades.

Unemployment Among Women.

Women wage earners were very hard hit, especially, as might be expected, the mill hands in the cotton manufacturing districts. Out of five million female wage earners in Great Britain, by the end of November over one hundred thousand were earning nothing in Lancashire and Cheshire alone, while twice as many were earning but a very few shillings a week. In London, over twenty thousand women were turned off, and although accurate statistics for other parts of the country are hard to come by, yet it is certain that distress among female workers was severe and widespread. In twenty-eight trade groups, as enumerated by the Board of Trade reports for October, out of every hundred women employed in July, there were in September eight out of employment, and in October six. But by that time the influence of Government orders was being felt, and certain trades were booming. For instance, in hosiery there were 105 women employed in October to every hundred employed in July, 102 in leather and canvas, but cotton was particularly bad still, 12 women out of every hundred being out of work. Of the crowding in of the women into places left vacant by the ever receding ebb tide of enlistment, which carried the men from the trades into the armies, and of the serious consequences of this great enlistment in many branches we will speak hereafter.

The measures taken to deal with this situation among women, apart from the Labour Exchanges, were not particularly successful. The Central Committee for Women's Employment set up Women Training Centres for the purpose of teaching trades, but, from the very nature of the case, only comparatively few, probably not more than a few thousand, could be dealt with in this way. Women's labour is particularly immobile and a displacement in the industrial machine always hits it very hard. This was seen very clearly in Canada, it may be remarked parenthetically, there having been a good deal of genuine distress in many quarters among the class of store employees, stenographers, clerks, and nurses. On the other hand, the demand for domestic help was as insistent as ever and there is little evidence to show that the women out of employment in one line betook themselves to another. In other words, women rather than lower themselves, according to their estimation, in the social scale, will prefer to face possible starvation, or at least very straitened circumstances.

In Germany female workers were grievously hit by the war. The following figures of the official statistical office are nothing less than startling. For every 100 situations registered as vacant in the labour exchanges, the number of applicants during each of the indicated months stood as follows:—

	Males.	Females.
June, 1914	168	101
May, 1915	99	158
June, 1915	96	157

Later figures from Germany are not so far available, but those given here are so grave as to merit more than passing notice. In June, 1914, trade was bad in Germany as shown by the numbers of the male applicants to the exchanges. One year later, four jobs out of every hundred went without workmen to fill them, but for every hundred jobs open to women, 157 applied. What does this mean? It means that, at least in Germany, the women have been unable to take the place of men in industry; that large numbers of them are out of employment, and that the industry of the country is slowly but surely beginning to suffer from a lack of labourers. In other words, Germany is being bled to death.

To sum up the first phase of the war period, we may say that after the first shock, when practically all industries were adversely affected, in England at least, a very quick recovery took place, and that by the end of 1914 conditions with regard to unemployment in the United Kingdom were not far removed from normal. The reasons for this rapid recovery were three-fold. First, increase of Government war orders to certain industries, allowing the absorption into them of many unemployed workers from others. Second, the soundness of British trade conditions. Third, the withdrawing of great bodies of men into the new armies. Of the subsequent developments after the new year, 1915, we shall speak hereafter.

IV. THE INDUSTRIAL UNREST IN GREAT BRITAIN.

The first momentum of the war carried the country along until the turn of the year brought Great Britain face to face with a new and very serious situation. In order to understand the state of affairs we must try very briefly to analyse the situation that had arisen in the labour market through the new and hitherto undreamed of conditions brought about by the war.

In the first place, England was not prepared for a continental war. Into the rights and wrongs of that state of unpreparedness it is not our duty to inquire, we merely state the fact. Secondly, not only was England unprepared for war, but in a far less degree was she prepared for a war of such magnitude; the shortage of shells is too well known to dwell on again. Thirdly, there had been a very violent displacement of trade conditions. Trades like cotton had been very severely hit, others like the woollen, the steel and iron, shipbuilding, coal and leather industries were suddenly stimulated to unwonted, and, indeed, to undreamed of activity. Prices were relentlessly rising, in some trades employment had dropped to a very serious extent, in others was a shortage of men, accentuated by heavy enlistments. What was the consequence? The industrial forces of the land could not react to the new conditions at once, nor could they be expected to. In addition to this there seems to have been some lack of grip of the situation on the part of the authorities, a failing that might well be excused, temporary as it proved to be. England, in a word, had no Rathenau to mobilize her industries.

By January, 1915, things were looking very ominous, and the workers had become deeply and determinedly dissatisfied. It began to be known that the manufacturers who were fortunate enough to benefit by war conditions were reaping fabulous profits. The case of the coal dealers has already been mentioned, and numberless other cases where enormous sums were made out of the increase in prices could be given.[6] But wages had not increased,—in that lay the secret of the whole trouble. The *New Statesman* of Feb. 27 expressed the attitude of the workmen perfectly: "Six months have passed, and the working classes find themselves face to face with a rise of prices that spells poverty in the better off home, and destitution in the worse. If this were the consequence of a state of siege, if we were all suffering the pinch of famine, if for a whole people the choice was between hunger and surrender, then the working classes would bear their fate with the same fortitude as other Britons; we should be bearing our burdens like our fellows in the trenches. But once let the working classes imagine that they are the victims, not of war, but of a profit-making spirit in some of their fellow-countrymen, and a very different situation is created." Such exactly was the situation, and there can be no question that the working men were deeply incensed. A calm study of the situation must convince anyone not carried away with antagonism to the Trades Unions, that in a very large measure the men were right. Besides this, the question of Trades Union rules was a burning one. The fight to obtain their rights had been a long and grievous one for the unions; were they to surrender them at once, and see the privileges won so hardly abrogated, even temporarily? The whole question turned on four things: first, the relationship between employer and employee; secondly, the employment of non-union men; thirdly, the hours of labour, and fourthly, the performance of certain processes by men not formally recognized as belonging to that particular trade. The Government implored the workers to consent that these rules be laid aside during the war; the request seemed a reasonable one, and the Trades Union leaders in many cases advised their men to consent. But consent was given very hardly. When privileges have been won only after many years, when certain rules are looked upon as the very foundation of equitable trade conditions, is it to be wondered at that the men hesitated, and even refused to see what they regarded as their Magna Carta abrogated? It looked very specious to say that these rules should only be in abeyance for the continuance of war condi-

[6] "The enormous profits made by Messrs. Spillers and Baker, Ltd., millers, of Cardiff, this year as compared with last year—£368,000 as against £89,000—continue to attract widespread notice and comment. It is said in milling circles in London that the firm could not help making all this money."—*The Times*, April 27, 1915.

tions, but, once let slip, could they be regained once more? Bloated by war profits, would not the masters fight the men again, and all the old agony of strike and hunger and lock-out and misery be enacted once again? Whatever were the rights and wrongs of the case, labour was determined that it would do its duty in the war, but not at the expense of the rights so dearly bought.

"Six months of long hours and speeding up were making their mark. Overstrain, frayed nerves, and tempers, suspicious of capitalist exploitation, a sense that large profits were being made out of their extra exertions, combined to bring about a great change in the atmosphere of the workshop from the willing enthusiasm of the early days of the war." [7]

But in January of 1915 the nation as a whole had not awaked to the state of affairs. The mass of the middle classes, those who read the *Times* and the *Daily Telegraph*, had no conception of what was brewing, not indeed that they ever do realize very accurately what is going on at their door. In the light of what has subsequently happened, the following extract from the *Times* of January 18, 1915, is almost antiquarian in its interest: "It is idle to expect shipowners or farmers or anybody else to refuse the best offer they can get for their goods. Those who indignantly denounce this monstrous conduct do exactly the same themselves. If anybody offers them more for their services they accept it. And when prices go down, they avail themselves of the advantage, without bestowing a thought upon the people adversely affected. The truth is that nobody can escape the market movement caused by the play of supply and demand."

By February affairs were becoming serious, and a Committee on Production in the engineering and shipbuilding trades was appointed. The committee did its best, but the situation was becoming impossible, and, what was significant, the men were not disposed to follow their leaders. The verdict of a very keen observer, Dr. Arthur Shadwell, writing in the *Nineteenth Century* in August, is pertinent at this point. "Behind a veil of silence, which allowed the public to believe that all was well, the industrial field of war was converted by confusion, competition and conflict into a bog of inefficiency, which nullified the really great efforts that were being made." The first rumblings of the storm were soon heard and a coal miners' strike in Yorkshire was only averted with great difficulty by a compromise in favour of the men's demands. By the middle of the month the railroad men had to be pacified, and on Feb. 16 came the first actually serious strike, that among the work-

[7] *Round Table*, June, 1915, page 571.

ers in the Clyde shipbuilding yards; by the twenty-second of month eight thousand men were out, had thrown over their accredited leaders, and elected leaders of their own. The Committee on Production called upon the men to return to work on March 1, appealing to their patriotism and promising consideration of their grievance; on this the men went back in a sullen and dissatisfied spirit resolved not to put their backs into their work until their demands were satisfied.[8]

The whole situation was desperately unsatisfactory and the bitter taunts of the *Morning Post*, on the one hand, and the oratory of Mr. Asquith and Mr. Lloyd-George on the other, could do nothing to make it better. "It was all very well to encourage the armament workers by describing them as 'soldiers of industry,' but the men knew very well that, if their work was as valuable as that of their comrades in the trenches, the conditions under which it was performed were entirely different. In strict and literal truth, however useful to their country their work might be, they were not working for the state, but for private employers—employers who, as they believed, were already profiting largely by the war, and would profit still more by the adoption of speeding up methods. What Mr. Lloyd-George and the Press asked of them appeared—and not unnaturally—to be a one-sided sacrifice. The only way to cure the trouble and to restore confidence, not only on the Clyde but in the armament industry throughout the country, was for the Government to demand equal sacrifices from both sides and to organize the whole industry in accordance with the national need."[9] To such a solution the Government came inevitably, and the engineering works were taken over, by an enlargement of the Defence of the Realm Act on March 22, as a national industry throughout the United Kingdom, a step which was hailed in the House of Commons as a great victory for the contentions of the collectivist-socialists, as indeed it was. An agreement was come to with the men that there should be no stoppage of work during the war, that disputes

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[8]The actual points in the dispute need not be gone into here very closely. The men were working on a three years agreement which terminated in January, 1915. The employees, wishing to keep to the old agreement, pleaded that war time was inopportune for change, but the men demanded two pence an hour extra. The men's leaders recommended a compromise at three farthings an hour increase, but this was rejected by the men themselves. The Committee on Production gave the men one penny an hour, and 10 per cent. increase on piece-work, and ordered the men back to work.

[9]*Round Table*, June, 1915, page 574.

should be referred to arbitration, and that all Trades Union regulations should be relaxed. The situation was certainly improved, but it is worthy of careful note that the Trades Union regulations never were relaxed for a single instant.

Although the situation was better, it was certainly still far from satisfactory. In April an attempt was made to improve the organization of the industry, and an Armaments Committee was set up to deal with the engineering trade in the North-East coast, and another at Glasgow for the West of Scotland. Then came the revelations of May, and the nation at last woke thoroughly to the fact that the supply of shells was not sufficient. The Coalition Cabinet was set up, Mr. Lloyd-George was made Minister of Munitions and set forth on his crusade. It is needless to go into the long and embittered controversy which sprang up over this new step, nor try to place the blame for the lack of appreciation of the magnitude of the task before the nation. It may, however ,be as well to quote the words of so responsible a paper as the *Statist*, which on September 11, 1915, spoke as follows: "If the Government had told the public at the beginning of the war how absolutely unprepared we were, and had appealed to the whole of the working classes, there is not the slightest reason for doubt that they would have been answered as splendidly as they were answered when the authorities foolishly and ignorantly appealed to the skilled workmen of the country to leave the mines, the workshops and the factories for the front. We cannot too often repeat the real blame lies with our public men and not with the workers."

In April came the realization of the desperate shortage of men for the munition factories, and the skilled workmen who had gone to the front were sent back again to the works. Then, for the first time, came that momentous movement among the women to take the places of the men at the front in the industries at home, a movement the significance and consequences of which are not yet apparent, and may not become fully apparent for many days to come. As an economic event it is of the gravest importance, for not only are women invading industries and filling positions, until now considered the exclusive reserve of the male worker, but they are demonstrating that in those industries which do not require a large expenditure of physical strength, women are perfectly competent to perform the same work as men, under almost precisely similar conditions, and, therefore, not only by reason of the force of logic, but also, and this is the really significant fact, by reason of the exigencies of the situation are surely and firmly establishing their claim for equal rates of pay for equal services rendered. It is yet too early to pronounce definitely as to whither this movement will tend. It is possible that when the armies return the men will oust the women once more from their positions, but then again it is not very probable. What is probable is that we shall see the whole question of the status of woman in industry, in politics and in social life shifted from the plane of factitious agitation to the plane of economic law, a result wholly for their own benefit and one which the militant leaders semm to have utterly failed to grasp.

By the end of April there was practically no unemployment in Great Britain, and so great was the call for skilled workers that the Government sent to Canada in search of them, several thousands being transported to England to help in the making of munitions. In May there occurred an event not of very great importance, but yet significant to a certain degree. The men working on the London County Council Street Car system struck for a permanent increase of wages. The strike was broken in a prompt and thorough manner, by the Council compelling all employees to surrender their uniforms and then announcing that no man of military age would be taken back. This effectually stopped it and the places of the conductors discharged were filled by women, thus showing the immense power put into the hands of the masters who can wield the club of military service over the heads of the workmen. In June there was a short-lived strike among the cotton operatives, who demanded a 10 per cent. war bonus on their wages: the demand was granted practically at once, and work was resumed.

The Great Coal Strike.

But all was not well in the industrial world, and a storm was brewing, more fierce and momentous than any that had gone before. The details of the great dispute between the miners of South Wales and the colliery owners are of such importance that it will be best to go into them with some particularity. The miners were working on an agreement entered into in 1910, which had expired on March 31, 1915, and a new agreement was, in due course, demanded by the men. The owners, whether rightly or wrongly is immaterial, refused to enter into a new agreement, pleading that the war conditions made the time unsuitable for entering on an agreement which would last over a period of years. The owners placed themselves, and this must in all justice be reckoned unto them for righteousness, unreservedly in the hands of the Board of Trade, and the President, Mr. Runciman, formulated a series of proposals to meet those of the miners. The points at issue between the disputants are too complicated to specify with any exactness, since the system on which the miners are paid is an exceedingly intricate one, involving several grades of remuneration according to the nature of the work of each man, but, broadly speaking, it may be said that the men demanded an increase of fifty per cent. over the rates which had been fixed as far back as 1879.[10] Mr. Runciman's proposals were in the nature of a compromise, and found favour with neither side.

Things quickly drifted from bad to worse, the miners rejected the Board of Trade's terms, and by the beginning of the second week in July, over 150,000 men were out, and the South Wales coal trade was completely paralysed. On July 13 the Government shot its last bolt, and by a Royal Proclamation under the terms of the Munitions Act it was declared that to go on strike, or to remain out on strike was a criminal offence against the realm. The Miners' Federation of Great Britain advised the men to return to work, the men refused, and for the first time England stood aghast at a great body of men calmly and deliberately defying the laws, with bitterness in their hearts at what they considered was the open siding of the Government with the masters. The feelings prevalent among the miners were quite frankly set forth by the *Times* on July 19: "The belief that the Colliery Companies are making fabulous fortunes out of the high prices of coal is universal among the strikers. They have no quarrel with the government, they say. The application of the Munitions Act with its penal provision has irritated them, and they have declared by formal resolution that if action be taken against any man, delegate or member of the local committees, they will refuse to work until that action is recalled. But what really sticks in their throats is the idea that they are being exploited by the coal owners. They are convinced that their demands are just and reasonable, and that the owners are grasping masters. 'You call us unpatriotic,' they say, 'because we will not withdraw our demands; why don't you call the owners unpatriotic because they will not grant our demands?' Nothing could be more appalling than the bitterness towards the masters: it is not the growth of weeks or of months, but of years. The owners, they say, have resisted every attempt to secure better or safer conditions for the men, and now they are taking advantage of the national emergency to resist demands which, had there been no war, would have been secured

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[10]The agreement of 1879 set up a sliding scale of wages, varying with the price of coal, the maximum price contemplated at that time being fourteen shillings and nine pence per ton. But when steam coal was selling to such large buyers as the Admiralty for £1. 5. 0 per ton, it was quite evident that the old sliding scale was entirely out of date.

by a long and bitter struggle. The miners feel acutely the odious position in which they stand. 'It is easy,' remarked one, 'to say that the fellows in the trenches must think badly of us, but thousands of them are miners like ourselves, and what would they think if they found when they came back that we had let them down, and that they were worse off than before?'" The state of affairs became very serious, and although the stock of steam coal for the Navy, which had been received by the Admiralty, was ample for all needs, yet the industries of South Wales were at a standstill and steel works in that locality were all shut down. The miners were attacked with a biting virulence by a large section of the press, such papers as the *Morning Post* calling confidently on the Government to put the proclamation into force in all its severity. But as days passed it began to dawn on the nation that to coerce nearly two hundred thousand men was a sheer impossibility, and that the miners were the masters of the situation.

On July 19 Mr. Lloyd-George journeyed to Cardiff and was successful in ending the dispute. The miners agreed to return to work, having gained practically all their demands, the most important point being that the agreement then entered upon should continue for six months after the ending of the war, and should then be terminable only after six months' notice. The victory was a sweeping one for the men, and at the present moment their wages are 96.25 per cent. higher than in 1879. Coal hewers, the most expert workmen in the pit, now receive a minimum of $13.36 a week, and the lowest paid labourer gets $8.89. Speaking of the settlement on July 21, the *Times* said: "It was recognized that the strike had been ended by Mr. Lloyd-George, and not by the Munitions Act. The general feeling was that a crisis had been passed, but that the authority of the state had not been strengthened. The Munitions Act was, of course, framed to deal with individual transgressors, and not with large bodies of men. Parliament passed the Act on the assumption that the Trades Unions would invariably act with the Government. This belief was falsified on the first occasion on which the act was tested, and Ministers had to face a situation that had not been seriously contemplated."

The whole incident was of immense import; it had shown that a great body of men simply by the dead weight of their numbers, could with infinite ease defy, not only the masters, but the whole nation, and set penal legislation at defiance, that is to say, so long as time was pressing. "It has shown us, among other things," said the Westminster Gazette on July 24, "both the limits of coercion and the powers of persuasion. No power known to the law could have compelled the 200,000 miners to go back to work if they had determined not to do so; the compelling force was the vision of the men in the trenches and the sailors on the sea, who would have been betrayed if the miners had proved recalcitrant."

There was another small strike shortly afterwards, involving some 25.000 men, the matter in dispute being the interpretation of the terms of the settlement; but this was confined to one district, and was soon settled more or less satisfactorily. It cannot, however, be felt that all is well in the mining districts. There is still a good deal of unrest, and even threatenings of further strikes. The miners have been stirred to the depths of their very souls, and temporary agreements are no palliatives to the feeling that here and now must the battle against the masters be fought and won, or for ever lost.[11]

Labour in Germany.

As to what has happened in Germany, it is very hard to say; it is well known, however, that labour troubles have taken place, but all news regarding them has been so sedulously suppressed, or their seriousness so minimized, that it is impossible to speak with any assurance. It seems, however, that the reported strike at Essen never took place, and was a figment of journalistic imagination, and on the whole we may safely say that no such troubles as have vexed Great Britain have taken place in Germany, in spite of the protests of the *Vorwaerts* in the intervals between its many suppressions. Indeed ,so much has been claimed for the industrial mobilization of the Central Empires, that it may be as well to inquire a little more closely into the working of this systematizing of the forces governing the industrial life of the nation.

The Organization of Germany.

Much has been written of the wonderful organization of the German people. At a word from the High Command the nation has fallen into line, and impelled by one thought and animated by one spirit, has marched forward like a well-trained army. One pictures a place for each man, woman and child, and each in his place, a perfect synthesis of disciplined thought and action. Herr Rathenau, the inspired organizer of the nation's energies, led the industrial armies of the Empire as the great General Staff led her fighting men. The

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[11]There were other strikes, notably a quite serious one among the cotton operatives in June, 1915, which was settled in favour of the men, but they are not of sufficient importance to mention more particularly.

state food monopoly, by which the grain supply of the nation was entirely controlled by the government, was set up and a writer in the Berlin *Der Tag* describes its working as follows: "For the control of the grain supply there is a central distribution plan of the states and the municipalities. The provisions remain in the possession of the owners, but can only be disposed of as the authorities see fit. According to the plan adopted by the government, the municipalities, as independent organizations, are entrusted with the practical solution of the whole economic question. The most important part of the programme is committed to them, which is not only a recognition of special relationship to the people, but is also the best technical solution. They must husband the quantities allotted by themselves. Scarcity will be out of the question, and the intention of the enemy to starve Germany has now already been thwarted. Only criminal resistance will evoke disturbance in the circulation of the food supply. Severe punishment will be meted out, and the disposition to trifle with the law will be nipped in the bud. . . . Whoever feels himself restricted in personal liberties will subordinate these sentiments to his patriotic duty. Moreover, the gambler is the only one who will suffer, having been shorn in the hope of price speculations. Maximum prices are set down, which will secure any trader in grain and flour a handsome profit. It will thus be seen that nobody is enjoined to sacrifice anything needlessly to the common welfare."

The above, written in February, 1915, would seem to forecast a perfect working of the industrial machine; there is no opportunity for a mistake and the gladly acquiescent people will be fed with clockwork regularity and despatch. Have the following months borne this out? Has the Machine worked as perfectly as it should in theory?

On November 8, 1915, the *Vorwaerts* spoke as follows: "The rise in the prices of food-stuffs has become unbearable. The prices of all important provisions and other articles of daily necessity, such as fuel, clothing and footwear, have reached an exorbitant height. With anxious fears, the people of the labouring classes up to the circles of the middle classes look forward to approaching winter. Already bitter need rules in many families. Must there be so much selfish lust for gain, and capitalistic greed of profits rage unrestrainedly in the unreined free play of forces? Must millions be in want so that those shameless producers and dealers, who coolly take advantage of war conditions, can enrich themselves at the nation's cost?"

The *Vorwaerts* concludes its article by an appeal, or rather a demand, that the Government shall take over the whole industrial mechanism of the nation, and fix prices for every commodity. Having made this demand, it was promptly suspended and retired into one of its frequent periods of temporary silence, although shortly afterwards it was announced that the Government was about to do almost exactly what the paper had asked.

We may well ask ourselves whether this can be carried out in its entirety. In plain language it is an attempt to run counter to economic forces, and to create a fictitious market value by laying violent hands on one of its two factors, namely, supply. In other words, the equation of supply and demand is not to be allowed to function in its usual course. The Government may forbid a man to sell above a certain price, but it cannot ensure that he will receive a sufficient quantity of that commodity to keep him in the business with curtailed profits. In other words, the attempt to fix prices arbitrarily is impossible when the smooth running of the production forces of the land is thrown out of gear. That is what has happened in Germany, and in a less degree that is what has happened all over the world. Vast masses of men, in Germany practically the entire effective manhood of the country, have been suddenly called away, either to fight in the armies or work in some connection for military purposes. This means that in Germany, far more than in other countries that can draw their supplies from abroad, the dislocation in the production of food-stuffs is very severe. The work is of necessity relegated to less efficient hands, to women who by lack of physical strength or experience, cannot labour as well as the men who have joined the colours, or to old men past their prime of health and strength. Production has, of course, suffered immensely, and all the legislative fixing of maximum prices in the world cannot keep them at anything like normal level. Then again, what are we to say of the great emissions of paper money that have poured forth from the Reichsbank and its attendant satellites? The task of describing measures taken by the German government to finance the war does not belong to this study; they are fully dealt with elsewhere.[12] We do not know accurately how far the German note issues are depreciated, that they are is certain. And what is still more certain is that the note issues are sending prices up, and will continue to do so in the future, governmental interference being more and more helpless to stop it as time goes on.

And, lastly, we may well ask whether all this state control is capable of achieving the results which it desires, name-

[12]See Mr. W. C. Clark's study of war finance.

ly, the complete mobilization of the industrial and agricultural forces of the land. The answer is given in very striking form by Professor Ashley: "As to the people—the operation of the ordinary motives of personal self-interest has been just as evident as it could possibly have been in any other country. The measures of the Government have been constantly met by evasion and subterfuge of every description. Against its will it has been driven, time after time, from a policy of maximum prices to a policy of state monopoly, merely because the peasants would not bring their stuff to market. The quite unnecessary scare about potatoes in the early spring, with its unfortunate consequences,[13] was brought about simply by the cunning of the peasants in concealing their stocks. Even the regulations about bread have been far from meeting with ungrudging obedience. So numerous have been the cases of infringement of regulations by the bakers, that in a great city like Frankfurt the municipal court had to give up the whole of every Wednesday to such cases, until the Government conferred summary jurisdiction on the Public Prosecutor. Not only has there been what a Conservative paper characterizes as 'unbridled economic egoism' in all sorts of petty ways; the country has been torn by the sharp division of interests between the agricultural and industrial halves of the nation, represented by the Agricultural Council and the Municipal Congress; and the asperity of their mutual recriminations matches anything in the way of sectional antagonism that other countries have to be ashamed of. Pervading the industrial classes and represented by all the popular newspapers, there is the bitterest feeling of animosity and suspicion towards all kinds of producers and dealers in food. To them entirely is attributed the obstinate refusal of prices to fall to a comfortable level.

All of which goes to show that the legends which have grown up about the innate docility of the German people, and of their wholly admirable singleness of purpose and power of national concentration, may be rudely shattered at no very far date. But indeed it shows far more than that; it shows that there is a limit to the docility of any people, and that appeals to the patriotism of the population are responded to

[13]The reference is to a case, cited by Prof. Ashley, where the storage of food by the Government actually led to the loss of a considerable quantity of it. Fourteen per cent .of the potatoes stored by one large urban municipality went bad, and this was only typical of what happened elsewhere; and the smell of rotting potatoes under the arches of one of the big Berlin railway stations compelled the residents to appeal to the sanitary authorities.

just so far as human nature in the mass is capable of rising to the heights of triumphant altruism, and remaining there for any length of time; which capability is strictly limited.

The advance towards State Socialism.

One intensely interesting subject of inquiry which springs naturally from the foregoing discussion of the organization of industry in Germany, is how far has Great Britain advanced toward collectivist socialism. We have mentioned, but did not enlarge upon, the taking over of the railways of England for military purposes, and we have described in some details the control of the sugar and meat supplies of the country. We have also shown the taking over, practically en bloc, of the engineering plants of the country, including the manufactures of automobiles, and the very unsuccessful attempt to apply the Defence of the Realm Act to the miners in Wales. We may well ask whether England has consciously and effectually advanced towards a near realization of the collectivist-socialist state. The question is a difficult one, and at this stage is well-nigh impossible to answer. On the one hand we may confidently affirm that such acts are extraordinarily significant of the advance which the doctrine and practice of state interference may make under special circumstances. War times are always abnormal, and what may be expedient when the commonwealth is in danger, may be far from desirable when the menace of attack from without is withdrawn. To say that because during the stress and strain of war conditions certain measures, resembling those advocated by collectivist-socialists, are put into effect, is no conclusive reason why we should suppose that when peace returns the state should continue these enactments in force. On the contrary, it is even to be expected that there will be some natural reaction against state interference and the tendency may very likely be retrogressive. However, of this we can only make conjectures.

> *It is very difficult as yet, while the events are so close to us, to arrive at any definite decision as to the rights or wrongs of this most significant struggle between capital and labour, and it may even be years before a true perspective can be gained. At present the most that can be said is that apparently there were grave faults on both sides, the masters, on the one hand seeking to keep from the men a legitimate reward for their increased efforts; and the men, on the other hand, forgetting that the hour of peril for their country was not the moment to press personal claims to the embarrassment of the nation in arms.*

V. THE SIGNIFICANCE OF THE ECONOMIC SITUATION.

So far we have attempted, very imperfectly owing to the exigencies of space, to give an outline of some events in the industrial and economic life of the peoples as affected by the war. We have seen the whole civilized world stagger under the blow, with commerce paralysed, countless thousands of men and women suddenly deprived of occupation, the avenues of trade blocked and the smooth working of commerce disorganized. We have seen prices soaring to unheard of levels for a short time until panic had subsided, then to drop not to their old levels, but to levels anywhere between 30 and 70 per cent. higher than before the war. We have seen industry reorganizing itself, with infinite pain and difficulty, to new conditions, and practically the entire nation of each belligerent land turning to work connected more or less directly with the war. And then we have seen the labour struggles in England, culminating in the most momentous strike perhaps of modern times, when Welshmen calmly defied the whole strength of the state in arms to enforce the penal clauses of the proclamation designed to send them back to work.

And what will be the outcome of these strange and very significant events? It is hard to say, and yet we can with some degree of certainty make a few surmises. In the first place, we must remember that the world has had a terrible jolt, and that the settling back into the old grooves after the war will be a very difficult business, if, indeed, it is wholly practicable. For Germany this will probably, nay, certainly, be a far more difficult business than for her opponents, and the consequences while the war lasts are even more serious. Germany's overseas trade was stopped dead; a very terrible blow to her when it is remembered that in 1913 she sold to the rest of the world goods worth about two billion dollars, while she imported nearly two billion and a half dollars' worth of goods for her own consumption. An interruption to such a vast volume of trade, an interruption lasting over many months, and even stretching into years, is a frightful blow to the economic welfare of the German Empire. As the *Times* said on May 26, 1915: "No rearrangement of the home demand, no reorganization, no retrenchment, no financial prestidigitation can, in the long run, avert the consequences of this stoppage of raw materials, unless the German armies are able to secure a new supply."

The economic factor, in short, is the most serious one for Germany, although at the same time we must remember that after the war Germany will undoubtedly take her place once more among the commercial nations. She will have lost much, but the undoubted enterprise and push of her merchants will win much back. It is nonsense to imagine that markets, appropriated at will during the temporary stoppage of German commerce, will be retained in all cases after the war. The world cannot do as well without German commerce, just as Germany cannot exist without the world's commerce, as this war will prove very effectually to her.[14]

There will inevitably be a period of acute stagnation in industry all over the world. Trades that have been feverishly active in the supply of war orders will suddenly be bereft of almost all work, and the thousands that have flocked into them will be cast upon their own resources to try to get back into the trade they left.

The millions of men with the armies will be disbanded and return to their homes; with the slackening of trade and return of the men unemployment must inevitably become acute. It simply comes to this, you cannot turn the whole industrial universe upside down and set it back exactly where it was before: the dislocation has been too great, and we must face the consequences. As a writer in the *Economic Journal* for June, 1915, says: "We shall do well to pause every now and then and reflect on the fact that every labourer who moves from one trade to another, every woman drawn into industry, every suspension of Trades Union regulations, each fresh step, in short, in the national mobilization, adds something to the bewildering chaos of industrial problems which must be grappled with when the war is over."

Will the men who have fought be content to go back to the old conditions of subservience to masters? Will the agricultural labourer whose wife and family have been kept by the Government, in what was to them absolute affluence, be willing to go back to fourteen shillings a week, and a wretched, unsanitary, disease-haunted hovel of a cottage to live in? Will the women, who have done men's work and earned men's pay, be willing to relinquish the stakes in the industrial world which they not only won, but had thrust upon them of necessity? Will the world see such a tide of emigration flowing from the old lands to the new, such as it has never beheld before; a flood of men and women seeking that freedom which it is so hard for them to win in the land of their birth?

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[14]But of course the prejudice against "Made in Germany" goods will probably for some time be very great, and she will lose a good deal of trade.

And lastly, how will democracy use the victory that it has won? For in the end that is what we come to—the overwhelming victory of democracy, the triumph of the proletariate in this world's war. The war is being fought not by great generals, but by the millions of workers, whether with musket or hammer, in the trenches or in the workshop; that is what the world must remember. The days of brilliant strategy are past, the mailclad chivalry of Europe is gone and the day of pick and shovel, hand-grenade and machine gun have come.

And what does this portent mean? It means that democracy is fighting its own war and that, if the Allies win, the people win. The world is in great tribulation, in travail of body and travail of soul, and the deliverance is not yet. How that deliverance will come, and what form it will take, rests with the hitherto but half articulate masses of the people; this prospect must be faced with such feelings as temperament and circumstance give to each observer.

H. MICHELL.

December, 1915.