

THE ECONOMIC IMPACT
OF AMERICA



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TORONTO

THE ECONOMIC IMPACT OF AMERICA

BY

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"THE FINANCIAL CRISIS OF FRANCE,"

ETC.

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PREFACE

WHAT effect will the stupendous economic power of the United States exercise upon our fortunes? Will our financial history be that of Holland? In popular parlance, will America "do us in"?

In the first chapter I state the reasons in favour of that view. In the succeeding seven chapters I present the other side of the picture, and in the last four chapters I sum up the case.

My conclusion is that our place in world economics tends to be not less, but more, important than formerly, and that our future in this respect will be greater than our past.

As regards the temper and spirit in which I have written, I hope and believe that I have said nothing to offend any American, or any British, citizen. Such a disposition is all the more necessary since we are in contested country all the way. We pursue the line of

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intersection, the quivering belt formed by the contact, or the clash, of two mighty economic energies. Our journey throughout is along the debatable borderland, the unsettled frontier which ever fluctuates as we follow it.

My first visit to the United States was paid in order to study the economic issue presented at the Presidential Election of 1896, an occasion which even in my youth I regarded, and still regard, as constituting a turning-point in the history of international finance. In the interval I have paid other visits. Thus, in 1904, even in the far-off Philippines, and amid the enchanting highlands of Baguio, during the early days of the American occupation, I have sought to learn, in the company of that great American, the late General Leonard Wood, the *Arcana Americani imperii*, the secrets of American rule.

Before I started on my original visit to America in September 1896, Mr. Gladstone invited me to see him. I found him alone, in the company of Mrs. Gladstone at Hawarden. In spite of the burden of extreme old age he was much preoccupied and agitated over the

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miseries of the Armenian people. Abruptly quitting this subject, he administered to me, for some three or four hours altogether, what I could only regard as a prophylactic, an inoculation, against my contemplated contact with American realities. This took the form of an account, beginning with the statute of 1819 and proceeding up to date, of those principles of economic policy which had animated and guided Sir Robert Peel, his "great teacher and master" in these matters, and, in turn, himself. A few weeks later, in remote Nebraska, I was destined to sustain a converse "economic impact" from Mr. William Jennings Bryan, then known in American politics as "Boy Bryan," and in later days as "the Great Commoner."

I have touched, so far, on the order of statement adopted in these pages, on their final conclusion, and on the general disposition which animates them. But I will venture to add a remark as regards the scientific purpose—if I may use those words without incurring the accusation of vanity—which they are intended to subserve.

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The Economic Science of our own time has performed, with relative perfection, one of its appointed tasks, but has, perhaps, not proved similarly successful in the other of them. The unequalled scholars, who have adorned our age on both sides of the Atlantic, have left little to be unearthed now as regards the domestic economics of their respective peoples. Here and there, perhaps, some new student may refine upon accepted theory, or may rejoice above his fellows to eliminate some new infinitesimal from the received calculus. But the spacious days of the classical economists are over. That easy era is dead. It is true that the War opened up some new perspectives, but our alert investigators have already pushed their triangulations over the flats laid bare by the economic ebb.

It is, unfortunately, otherwise when we come to estimate the work of Economic Science on its strictly international side. In this case, despite the immense attention devoted to it, it has been constructed, in neglect of the Baconian principle, on an imperfect basis of ascertained facts. A single

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example must suffice to illustrate what I mean.

From the days of Adam Smith's well-known analysis up till to-day, not only has no Englishman—I have here to except myself—written a book on French economics, but no one of any nationality has investigated the highly important subject of the relationship, the impact, between the economics of France and Great Britain. Proceed throughout the nations of the world and it is almost certain that you will find the same observation to hold good. In the case of America and Great Britain it is so, at any rate.

If this proposition be accepted, it follows irresistibly that no genuine international science of economics—and all real science is international—can possibly be constructed until it is based on some such solid work of research. In plain terms, the economic stresses, the economic impacts, between the individual nations must be calculated, ere we can accept as authoritative the lofty speculations which now invite our assent.

In the weighty words of Professor Alfred

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Marshall, uttered over a generation ago but still admirably apposite, "Our first duty as economists is to make a Reasoned Catalogue of the world as it is, and never to allow our estimate as to what forces will prove the strongest in any social contingency to be biased by our opinion as to what forces ought to prove the strongest. A chief part of the work which lies before the economists of the twentieth century is to make that estimate, not well—for that is impossible—but somewhat less badly than it has been done hitherto." *

By a singular circumstance, this volume is not my first essay in the field of research thus recommended to our attention by the most eminent of our modern economists. I happen to have already surveyed a corner of it, in a volume which, though printed by the Government of Egypt in 1917, has never seen, and will never see, the light of day.

The story is that, after having served with the Royal Naval Division throughout the

* Address by Professor Alfred Marshall on "The Old Generation of Economists and the New," at Cambridge, October 27, 1896; see *Memorials of Alfred Marshall*, edited by Professor A. C. Pigou, p. 303.

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Dardanelles Campaign, I was appointed by the Commander-in-Chief in Egypt as head of the War Trade Department, an organisation specially formed to investigate the "economic impact" upon that country of Germany and of the other enemy Powers in pre-war days, and to disentangle and terminate that connection. Aided by a staff of expert accountants and lawyers and with all the business records open to me as of right, I was able to embody our labours in a somewhat elaborate record which I should think was, so far, unique.

That work has not been useless to me in the much wider quest, the results of which I now venture to submit to the public. But it was, indeed, of too detailed and too technical a nature to deserve publicity. It embodied a fleeting opportunity: it embalmed a singular experience. In it the land of the Nile produced one more mummy—a mummy whose hieroglyphics recall to me the Dardanelles Inferno and Elysian Egypt.

GEORGE PEEL.

*27 Belgrave Square, S.W.,
February 1928.*

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THE ECONOMIC IMPACT OF AMERICA

CHAPTER I

THE ECONOMIC IMPACT DEFINED

WE are all aware of those economic factors which, since the War, have arisen at home and in Europe to the prejudice of our prosperity. Unfortunately, during the same period, we have further experienced the impact of other economic forces of a scarcely less formidable character, which have arisen, in this case, in the United States of America. To trace these latter influences to their origin, to analyse their existing incidence upon us, and to estimate to what degree they may inflict damage, or even disaster, upon our future fortunes is an important task.

The first of the factors thus in question arose in definite shape when, in June 1923, we

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settled to pay to the United States Government annuities running from December 1922 up to December 1984. These annuities started at the rate of about £33 million a year. But in the year 1933 the interest charge involved in each annuity is to be raised against us, with the consequence that thenceforth the annuities will increase with some slight variations to a maximum of about £38 million a year.¹ To state the position in another way, it may be said that by 1984 we shall have paid the gigantic sum of about £2,222 million to the United States Government, a sum composed of £920 million in respect of capital, and of £1,302 million in respect of interest.

The second item of the factors under review is that the United States exports, which originally consisted mainly of food-stuffs and raw materials, have been altering in composition of recent years. They now consist, much more than formerly, of manufactured articles, which compete in a greater or less degree with our own exports in many quarters of the globe.

¹ Answer of the Chancellor of the Exchequer, House of Commons, November 15, 1927.

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The President of the Board of Trade recently laid very proper emphasis upon this feature in our situation. Addressing himself to "our share of world exports of manufactures," he has pointed out that since 1913 this has declined sharply, while the corresponding ratio of the United States has, as definitely, advanced. "When we realise," he continued, "that manufactures represent about 75 per cent. of our total exports, the position is not satisfactory."¹

A former Chancellor of the Exchequer, Sir Robert Horne, has presented these figures in another way, but to the same effect. "Our figure of the export of manufactures has been steadily going down. Taking 1913, we are to-day only exporting 78 per cent. of what we exported then. To a manufacturing country these figures are very serious, and, indeed, one cannot exaggerate their importance, especially when one discovers that our great rival of to-day, America, is not only increasing its exports but holds a position in exports which for long generations was held by Great Britain.

¹ The President of the Board of Trade, *Hansard*, July 25, 1927, c. 882.

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The United States are exporting more to-day than Great Britain, and that is a country which does not live upon exports as we do. It is in many respects absolutely self-sufficient, but it has such an enormous margin of production that it is able to invade the markets of the world formerly held by us. . . . It is inevitable that America will, more and more, invade the markets to which we have been accustomed, and the competition from which we suffer will be immensely greater.”¹

Still another aspect of the same situation has been furnished to the public by Mr. Lloyd George. He has pointed out that our population to-day is three millions more than it was in 1913. Hence, if we had merely maintained our export of manufactured goods in step with our population, we should have been selling them abroad in the ratio of 120 compared with 100 in 1913. As it is, the ratio has actually dropped to about 78 per cent.²

¹ The Rt. Hon. Sir Robert Horne, M.P., *Hansard*, July 25, 1927, cc. 914, 915.

² The Rt. Hon. D. Lloyd George, M.P., *Hansard*, July 25, 1927, c. 921.

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Assuredly, the above utterances are not to be brushed lightly aside on the score of partisanship or pessimism. On the contrary, these pronouncements have too evidently been wrung from the reluctant lips of responsible and experienced statesmen. Their simple figures seem charged with fate.

There has been a third factor of the same order as the two above mentioned. In 1922 the Congress of the United States passed into law the severest tariff even of all those hitherto enacted. It was known in public parlance as the Fordney-McCumber Tariff, and more popularly still as "the Sixty Per Cent. Tariff." It superseded the existing Underwood tariff of 1913, which had been reckoned, at the date of its passing into law, as embodying an average rate of duty of 30 per cent. The items of charge were raised from 386 to 495 in number. Besides this, the President was given power, after advice by the Tariff Commission, to increase any rate of duty within a margin of 50 per cent., whenever he could claim to discover such a difference, between the cost of production of a foreign article and that of a

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similar article of home production, as was not equalised by the new tariff rates.

For ourselves the significance of this measure is, of course, that it operates in direct restriction of our exports of manufactured articles. But, besides this, it must tend also to increase our difficulty in discharging our debt to the United States, in so far as this has to be done by our importation of goods into that country.

Added to the above, there has been a fourth department in which, during the years after the War, we have been confronted and challenged by the United States. Our Mercantile Marine has always been a source of special strength to us, and has immensely contributed to our financial resources. During the War, however, we lost some 9,000,000 tons of it. We managed, indeed, to replace some 6,500,000 tons of this shipping by purchase, by capture from the enemy, and by constructing new ships. Nevertheless, these expedients still left us at the close of the War with a deficit of 2,500,000 tons. Into the void thus made stepped the United States of America.

The credit of realising this new situation

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very early in the day must be ascribed to one of our leading authorities on shipping, an ex-President of the Board of Trade. In November 1918, Mr. Runciman spoke on this topic as follows: "The changes which have taken place during the last four years have placed us at a tremendous disadvantage in comparison with many neutral flags. America is building with great rapidity, and her ambition is to be possessed of the greatest mercantile fleet in the world. Her Ministers talk about it, not only as a war provision, but as a peace provision. Mr. Hurley has declared that it is the ambition of the United States to use the great effort which is now being made, both on the East and on the West coasts of America, to provide her with the largest mercantile fleet in the world. No doubt, if they go on at their present speed, they will be successful in achieving this."¹

In the years that have followed the War there have been, it is true, severe criticisms, on both sides of the Atlantic, of the quality

¹ The Rt. Hon. Walter Runciman, M.P., *Hansard*, November 14, 1918, c. 2921.

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of the shipping produced according to these ambitious projects. Nevertheless, the hard fact remains that, according to the Official Register of Shipping, whereas the United States Mercantile Marine, *i.e.* steel and iron steamers and motor ships, excluding sailing vessels and Lake tonnage, was 1·8 million tons in 1914, it had risen by June 1923 to the colossal figure of 12·5 million tons, descending thence in 1927 to 10·9 million tons, after the scrapping of a good deal of inferior tonnage. It may be recalled that in 1900 the official figure of the American Mercantile Marine was not more than 827,000 tons, most of which was adapted merely for local services.

To complete this series of the new factors in American economics thus adverse to ourselves, it must be pointed out that a fifth has emerged since the War, of as much importance as any of the others, in challenge of our prosperity. It has been an axiom very generally accepted that, up to 1914 at any rate, London was the financial centre of the world. For instance, a generation ago, in 1896, we may recall the words uttered upon this theme in the

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House of Commons by the then Chancellor of the Exchequer, Sir Michael Hicks Beach, a statesman very little disposed to boastful or vainglorious utterance. "This great capital," he exclaimed, "is the monetary centre of the world. Our trade and commerce are probably greater than any other country has ever enjoyed. Our wealth is enormous. It arises from investments and enterprise in every quarter of the globe."¹

Not long before the date of this utterance the Secretary of the United States Treasury, in discoursing upon this same topic, reached the same conclusions on the other side of the Atlantic. Mr. Carlisle said: "The pound sterling has made London not only the principal market but the clearing house of the whole world. No matter what currency other nations may use, no matter what standard of value they may adopt, all these international balances are subjected at last to the test of the pound sterling, and all these international bills of exchange are naturally attracted to a common

¹ The Rt. Hon. Sir Michael Hicks Beach, M.P., *Hansard*, March 18, 1896.

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centre; because it is there, and there only, that an uniform measure of value will be applied to them.”¹ No Chancellor of the Exchequer, no Secretary of the United States Treasury, would be very ready to repeat all this to-day.

In the period just before the War, a high authority on these matters could dwell with complacency on the fact that London still indubitably enjoyed her old dominion in finance. “It is clear that, in order to be of any use in international finance, money must be immediately and unquestionably convertible into gold, the only form of payment which is universally and always acceptable in economically civilised countries. And money of this kind is only to be had in London.” Recognising that “it is a cherished ambition among Americans to see New York some day established as the monetary centre of the universe,” he argued that “it will be long before international finance will look with much confidence on a draft on New York. . . . A draft on London is the real cash of international com-

¹ Mr. Carlisle, Secretary of the United States Treasury, Speech of November 19, 1895.

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merce and finance." Thus he could emphasise "the unquestionable fact that London is the only monetary centre that is always ready to undertake the responsibilities of international banking."¹ These confident verdicts could not be uttered now.

Indeed, he himself now informs us in the columns of *The Times* that "there has risen in the West a new lending country, the United States, which, still a borrower up to the War, can now undoubtedly claim to be the world's financial centre, if that position belongs to the country which has the largest available surplus of capital to lend abroad."²

Correspondingly, a trained observer of American affairs, an eminent French statesman, himself the head of the French Commission in the United States during the War, tells us that, in spite of all our great influence, "New York is become the financial capital of the world."³

¹ Mr. Hartley Withers, *The Meaning of Money*, pp. 86, 88, 91 and 96.

² Mr. Hartley Withers, leading article in *The Times City of London Number*, November 8, 1927, Part I. p. vii.

³ M. André Tardieu, *Devant l'Obstacle*, 13th edition, 1927, p. 299.

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Another international observer of remarkable competence writes : " Up to the War, London was universally accepted as the financial clearing house of all commercial undertakings, owing to the stability of the pound sterling, which was an essential condition of the smooth working of the system of bills drawn on London. Nine-tenths of all international transactions outside of America were done in sterling, but this supremacy has since been seriously impaired ; for the dollar, in its triumphant stability, is now the chief international currency, in competition with the somewhat precarious pound sterling." ¹

Such, then, are the main economic factors which have arisen in recent years across the Atlantic to add to our embarrassments. It cannot be said that they have taken us by surprise. Our leading men, even during the active course of hostilities, plainly perceived their coming.

This can be shown by citing a remarkable letter addressed to President Woodrow Wilson

¹ M. André Siegfried, *America Comes of Age*, English edition, 1927, p. 213.

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in August 1918 by Mr. Walter H. Page, the American Ambassador in London. Mr. Page, in virtue not only of his official position but also of his peculiarly sympathetic association with our most distinguished statesmen, enjoyed special opportunities of gathering and of gauging the opinions then current among them. He writes to the President to give an account of their innermost anxieties. "I hear more and more constantly such an opinion as this: 'You see, when the War is over, you Americans will have much the largest merchant fleet. You will have much the largest share of money, and England and France and all the rest of the world will owe you money. You will have a large share of essential raw materials. You will have the machinery for marine insurance and for foreign banking. You will have much the largest volume of productive labour. And you will know the world as you have never known it before. What, then, is to become of British trade?'"¹

So, if it is indisputable that the United

¹ *Life and Letters of Walter H. Page*, by B. J. Hendrick, 1923, Vol. II. p. 386, Letter to President Wilson of May 24, 1918.

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States has secured the right to extract from us during the next two generations a stupendous annual tribute of our wealth; if she is making a resolute attempt to oust from the neutral markets those exports of ours whereby we live; if she is planning to be quits with us in shipping; if she is resolved to exclude our goods by an inexpugnable tariff wall; if she is ambitious to wrest from us the golden sceptre of finance—then, assuredly, there are not many subjects, in the material order, more worthy of our attention than *The Economic Impact of America*.

CHAPTER II

AMERICA'S RECORD IN FINANCE

IF we confine our attention solely to the facts presented in the last chapter, we shall scarcely be able to avoid the conclusion that the situation which we enjoyed, or had begun to enjoy, prior to the War is a thing of the past. For the considerations so briefly enumerated indicate that, in most departments, the United States is intervening with marked effect upon our economic fortunes.

And certainly, if we restrict our survey to these hard realities of the present hour and forbear to glance beyond their orbit, there is little more to be said. But Allah is great and merciful. If we examine the past, it may throw some light upon the permanence of the existing situation. Still more important, there is the future, which may amend things in our favour, or in which we ourselves may amend

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them. We must, therefore, interrogate these two indispensable interpreters.

First, then, to glance at the past, what has been the economic impact of the United States upon us in currency, in banking, in public finance, and, lastly, most important of all, in industry? Does their record in these various departments of economic life authorise us to think that they will overwhelm us?

As regards the currency, I may perhaps be permitted a personal reminiscence dating back to the autumn of 1896. The importance and the significance of the monetary issue then afoot in America so much impressed itself upon my youthful mind that, taking ship to New York in September, to the neglect of other duties, I proceeded direct to Chicago. Arriving there at midnight, I boarded the State car of a special train drawn up in the station and ready for departure to the Far West. I found myself at once confronted by the most famous man of the day, William Jennings Bryan, "the Silver Star of Democracy," "the Boy Orator of the River Platte."

A few weeks earlier this remarkable product

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of the Middle West had leapt from complete obscurity to world-wide fame, in virtue of his miraculous apostrophe : " You shall not press down upon the brow of Labour this Crown of Thorns. You shall not crucify mankind upon a Cross of Gold." These two sentences had " stamped " the Democratic Convention of Chicago, and had secured for their author the Democratic candidature at the forthcoming election for the Presidency of the United States.

To his abrupt inquiry as to who I was, and what I wanted, I answered that I was an Englishman desirous of knowing at first hand why it was that, as his campaign had proceeded, it was turning more and more into hostility against Great Britain. Sharply flashed back the answer that this was so, because England, and particularly Messrs. Rothschild of New Court, London, had effected a " corner " in the gold of the world, with the result that prices had fallen seriously, thus rendering things impossible for the struggling West. A policy of free silver furnished, accordingly, the one way out. It was no use for me to present contradictory figures, or to argue that the

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last thing that firm could wish was to hoard unremunerative gold. But soon, relaxing his tone, Mr. Bryan genially invited me—for all Americans are hospitable—to his modest home at Omaha, Nebraska. There, a little later, he was good enough to initiate me fully into his remarkable economic views. But why was the question, thus sensationally raised at Chicago, of such immense consequence then and thereafter?

It is not too much to say that for one hundred years previously, or more exactly since 1792, the financiers of the United States, by their currency legislation, had constantly imperilled the industrialists. As briefly as possible, it may be asserted that this legislation had been founded from the first on unsound principles. In 1792 gold and silver were alike admitted to currency at the fixed ratio of 15 to 1, *i.e.* 15 lbs. of silver were to be reckoned arbitrarily as the equivalent of 1 lb. of gold. Yet, as the real commercial value of silver was lower than this in respect of gold, gold, the under-valued metal, was always tending to vanish out of sight. Hence, chaotic conditions up to 1834.

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In 1834, accordingly, another policy was tried. In order to tempt back gold into currency, the ratio was declared to be 16 to 1, *i.e.* 16 lbs. of silver were to be equivalent to 1 lb. of gold. The practical result of this statute of 1834 was to reverse the operation of that of 1792. Now it was gold, not silver, which was over-valued, and the under-valued silver emigrated to where it could command a better price. Thus, when the Civil War broke out in 1861, the monetary standard, in practice, though not in theory, was a gold standard.

During the Civil War, by another turn of the wheel, the standard was changed from metal to paper, as was, indeed, scarcely to be avoided. Then back again to the gold standard in 1879. But, simultaneously with this latter step, a divergent policy was put in force. This was a policy of almost incredible imprudence.

Mainly under the influence of the silver mineowners, who were directly interested, of course, in maintaining the price of silver, Congress passed the Bland Allison Act of 1878 and the Sherman Act of 1890, under which Acts together the Treasury was forced to buy

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practically all the silver output of the said interest. The public, fearing that this silver would be forced upon it at the ratio of 16 to 1, although the market ratio was only 32 to 1, started to export gold. Gold began to melt out of sight once more, and industry was once more shaken to its foundations. The result was the great panic of 1893, one of the most severe hitherto encountered in the United States. One-fourth of the railway capital alone passed into the hands of receivers, and the silver purchases had perforce to be abandoned. But it was too late. Gold continued to leave the country, and the insecurity was such that whereas in 1889 90 per cent. of the tariff duties were discharged in gold, no gold was tendered as 1893 went on. With the coming of 1895 a great crisis seemed imminent, for in spite of the repeal of the silver statutes and the economic earthquake, the silver party seemed to grow more powerful every day.

To the eyes of any observer it was plainly evident that in this problem of the currency two issues were simultaneously involved. First, was the stupendous industrial activity

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of the United States to be for ever endangered and even wrecked by wild-cat currency legislation? And next—an issue deeper and more fateful still—was the New World of the United States now preparing to turn its back upon Europe, so as to cut itself adrift from that financial system which was in course of construction, or indeed in actual operation, in the elder Continent? The Presidential Election of 1896 gave some answer to both these questions. The silver policy, though supported by six and a half million voters, was rejected, and the United States, by stages not necessary to mention, though more particularly by the Gold Standard Act of 1900, turned towards the principles of sound currency. With such uncertainty, however, that even in the report of the Monetary Commission presented to Congress at the opening of 1912, attention is drawn to “the defective and insufficient monetary system” of the United States.

The last time that I saw Mr. Bryan was at an evening party, a “crush,” in London. Those who have attended such functions may know that the guests form two streams, one

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the inward tide who aspire to do their social duty, and the other the outward tide who seek relief and refreshment from duty discharged. Pushed by those irresistible social forces which, as Mr. Gladstone described them in the most eloquent of his perorations, "move onward in their might and majesty," I suddenly encountered Mr. Bryan floating down the outward tide. I had time to remind him of my visit in old days to his hospitable abode. "Come and stay with me again," he replied as genially and as gaily as ever. "But, by the way, I am moving into another house." "The White House?" I responded, with just the faintest touch of irony. But he was swept onward, though not before he had shaken his head.

Peace to his ashes! With that eloquent tongue he "stampeded" two Conventions, that of 1896 in favour of silver, and that of 1912 in favour of the candidature of Woodrow Wilson for the Presidency of the United States. He crusaded for Silver, for Prohibition, for International Arbitrament, and, last of all, for Fundamentalism, or the literal interpretation

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of the Bible, at "the monkey trial" at Dayton, Tennessee. In the advocacy of all these causes this evangelist toiled unsparingly, with an almost apostolic zeal. In that midnight long ago at Chicago, when I met him first, he exclaimed that he had made fourteen speeches that day, and was ready to deliver a dozen more that night. Thus, to take him at his best, and to ignore that some of his campaigns had an unwise objective, he was a strenuous and faithful servant of humanity, according to the lights that led, or lured, him on.

Albeit, this son of Salem, Illinois, had his weaknesses like other men. It was not that in his later years he developed a proclivity for active investment in real estate, leaving a competence of £222,974. This was only an innocent sport which he shared with two of the most virtuous citizens of Rome and of America, Marcus Porcius Cato Censorius and George Washington. What was more serious was the fact that he seemed too often in his career to prefer magniloquence to meditation, and even to confound elocution with ethics. At such times the fervour of his convictions and the

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fire of his oratory would fan each other into a flame, like a force of nature, transcendently indifferent to analytic thought. The Boreas of Bimetallism ! The Æolus of America !

It has been shown very briefly in the above paragraphs that, up to the opening period of the twentieth century at any rate, the currency of the United States, that essential basis of a sound economic system, was much mismanaged. But, apart from that important consideration, it must be added that the banking policy of that people, during the same period and even somewhat later, was equally unfortunate.

It is the function of banks to administer the floating capital of a country and to build up the structure of credit in terms of currency as fixed by the State. Hence the institution of a proper banking system is parallel in importance to the institution of a proper measure of value and medium of exchange. The financiers of England had solved this problem long before by the agency of the Bank of England. The financiers of France, on the initiative and under the inspiration of Napoleon I, similarly met it by founding the Bank of France in the

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year 1800. In the year 1791 the financiers of America, animated by similar necessities, organised and chartered the United States Bank. But it was so indifferently constituted and so seriously maladministered that, when the time arrived for the renewal of its charter of incorporation, it was allowed to expire.

Into the vacancy thus left there stepped a numerous progeny of State Banks, *i.e.* banks chartered under the laws and regulations of the various States composing the Union. But this was of no avail. So little were the essential principles of banking business observed that in 1814 practically all the banks, new and old, with the exception of some of those in New England, suspended payment. To remedy this crisis the Second Bank of the United States was chartered in 1816, in the hope that the evils of the time would be adjusted satisfactorily.

It must be recorded, however, of the Second Bank of the United States that its enemies, who were numerous, took full advantage of the errors committed by its Board. As early as 1819 the institution was practically bankrupt, though somehow it recovered, until the question

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of rechartering it came up for decision in 1832. But the renewal of its charter was refused, and so it passed out of history.

The weary round of speculation was now resumed by the surviving banks with even greater gusto than ever, with an inevitable result in the disastrous crisis which declared itself in 1837. And thus things scrambled and tottered forward, varied by one crisis after another, and culminating in the wreckage, so often before experienced, of 1857. So profound was the chaos that, not long before the outbreak of the Civil War, it is stated that over five thousand different kinds of note issues were circulating among the people.

After these disastrous experiences it was imperative that the matter should be finally settled on practical lines. And at last the welcome measure of 1863 was enacted, organising a National Banking system. The note issues of the State Banks were presently taxed heavily with a view to terminating their existence, and a practical monopoly of issue was consigned to the new National Banks. Unfortunately, however, this note issue was so

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hedged about with restrictions and red tape that the new banks did not find it worth their while to utilise the privilege accorded to them. And thus, as the century proceeded to its close, this note issue fell away so seriously that, by the opening of the twentieth century, it seemed only too likely that the National Banknote circulation would disappear altogether. Hence the door was always open for fantastic financial schemes to be proposed and even adopted, in view of the fact that the legitimate demands of business were imperfectly met by the authorised banking agencies.

It is almost wearisome to relate once more the inevitable result of this policy. The woeful experiences of 1814, of 1819, of 1837, of 1857, of 1873, of 1884, of 1893, and so forth, were again renewed, this time in 1907. The same lamentable performances, though now on a more gigantic scale, were again witnessed, with the outcome that the banks throughout the United States partially suspended specie payments.

According to a report on the subject issued under the authority of the United States

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Monetary Commission appointed in 1908, "It is impossible to escape the conviction that the banking situation in 1907 was handled less skilfully and boldly than in 1893, and far less so than in 1873. . . . No real effort was made to overcome difficulties which had been met with partial success at least on former occasions. A situation which was certainly less serious than in 1873 or 1893, and probably less serious than in 1884, was allowed to drift into the most complete interruption of its banking facilities that the country has experienced since the Civil War." ¹

While all this had been happening in the United States, the story in Europe had been widely different. As the chairman of the Monetary Commission took independent occasion to point out, "There has been no suspension of banking institutions and no general destruction of credit in any of the leading countries of Europe for more than half a century." ² We may observe, as against this, that in 1882 and

¹ Memorandum on History of Financial Crises, Document 538, of 61st Congress, 2nd Series, 1910, p. 319.

² Senator Aldrich, Address before Economic Club of New York, November 29, 1909.

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1889 France had experienced the failure of the Union Générale and of the Comptoir d'Escompte. In 1890 England had also undergone a crisis. In 1901 one of the great institutions of Germany, the Leipziger Bank, had closed its doors. But these were almost trumpery and incidental occurrences compared with the long series of financial catastrophes which had fallen to the lot of the United States. The chairman of the Commission went on to remark that "its friends say, and I must confess with great truth, that the Bank of England is to-day the financial centre and clearing house of the world. We know that sterling bills drawn on London are still the highest form of commercial credit."

The fact was that, until the Federal Reserve Act was passed in 1913, the banking system of the United States was a disorganised chaos of some 30,000 institutions. Its principal technical defects were summarised as being seventeen in number in the Report of the Monetary Commission.¹ Europe, meanwhile, had pur-

¹ Report of the United States Monetary Commission, presented to Congress January 8, 1912, pp. 6-9.

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sued the policy of concentration and co-operation in this respect. On occasions of industrial crisis, the European policy had been to extend credit, and thus to save the situation by utilising the strength of reserves accumulated in ordinary times. In America the opposite policy had been pursued. For the law governing the National Banks strictly imposed a lawful money reserve of 25 per cent. of the outstanding deposit liabilities, thus actually prohibiting them from taking power to meet emergencies at the very moment when it was most necessary to do so.

The deficiencies of the banking system were reflected and reproduced in the monetary system. This latter was characterised by an antiquated confusion, by an out-of-date, unbusinesslike inelasticity. The currency consisted of gold coin and gold certificates; of silver dollars and silver certificates; of United States notes or "Greenbacks" arbitrarily fixed in amount by law; of National Bank notes issued, on an old-fashioned system, against Government bonds deposited with the Government; of subsidiary silver and copper coin, and so forth.

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A study of the official documents of those days will reveal how profoundly unsatisfactory the situation was recognised to be. Thus the Secretary of the Treasury, in his Report for the year 1912, took occasion to observe that "As long as our banking and currency system remains as it is, the immeasurable disaster of a panic will remain a necessity. The system under which we are living will not only not prevent a panic but, after a certain point in the generation of panic conditions is reached, will make it inevitable." The Secretary proceeds to remark that the nation is saddled with "the needless and heavy burden of an unfit and wholly insufficient banking and currency system. . . . The banking and currency system is the product of Federal law. There can be no relief from it until Congress acts."

It is true that, at the very close of 1913, the new Federal Reserve Act was passed by way of reform and was put into operation in the course of 1914. But, though an examination of the probabilities of its success must be reserved for a later chapter, it may here be said in anticipation that many acknowledged experts

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are already doubtful of its eventual success. "Students of banking everywhere will watch with the greatest interest both the development of the Reserve Policy and its struggle with adverse opinion, which may yet prepare for it the fate which awaited the First and Second Banks of the United States a century ago."¹ Other authorities contend that the life of the institution in its existing shape will not be extended beyond its present term.

Such, from the earliest days of the Republic, up to the outbreak of the War in 1914, was its record in currency and banking. This record, as summarily set forth above, has assuredly no small significance for us to-day and is highly cogent to our present argument. We may assume that the financiers of America in that long period of history were as patriotic, as enlightened, and as able as the corresponding financiers of Europe. Then how was it that the former were not in a position to solve the problems which were handled by the latter

¹ "The Federal Reserve System," etc., by the Cassel Professor of Banking in the University of London, Professor T. E. Gregory; see *The Banker*, February 1926, p. 199.

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with reasonable success? It must have been because, in ordinary times and in normal circumstances, American statesmen have, in these matters, exceptional difficulties with which to contend.

If the above proposition be accepted, then it would appear to follow, by the force of irresistible logic, that if Europe, and especially England, may seem to-day to have forfeited their former precedence in these respects, it is because some cause, immensely important indeed, but perhaps temporary and perhaps incidental, has intervened.

CHAPTER III

AMERICA'S RECORD IN TAXATION

THE argument of the preceding chapter consisted in an examination of the currency and banking history of the United States from the foundation of the Republic up to 1914. Certainly, it furnished no evidence of ascendancy in these fundamental matters. The conclusion was that the relative want of success, upon the part of a people so well endowed and so keenly devoted to business efficiency, must be ascribed to some fundamental difficulties and drawbacks inherent in their situation.

Without turning aside to elucidate these latter, we must pursue and extend our survey from their currency and banking to their budgetary system, as it operated normally from the establishment of the Republic up to the War. An impartial analysis will indicate that, in this department of finance also, the results,

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generally speaking, were not remarkable. This examination will have the additional advantage of bringing for the first time into light the nature of their underlying difficulties and drawbacks, above referred to but not yet specified.

To achieve this purpose, first the revenue side, and then the expenditure side, of their budgetary system must be called to account.

The policy of America in regard to taxation was fixed in the earliest days of the Republic. The memorable contest between Hamilton and Jefferson turned largely on this issue. Jefferson, as leader of the anti-Federalists, was opposed to the idea of directing the energies of his countrymen towards manufacture. He thought that "the mobs of the great cities add just so much strength to the support of pure government as sores do to the strength of the human body." Hamilton, on the other hand, was all in favour of the opposite policy of stimulating and protecting industry by the agency of tariffs. The latter won. Apart from any question as to whether this was an advantage or otherwise, it had this effect on the taxation

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system, as such, that reliance on the revenue derived from Customs and other indirect taxation entailed that the modern system of direct taxation as typified by the Income Tax, in its various forms, was not adopted.

The decision of the United States to rely mainly on Customs and Excise for their revenue took some little time to express itself in a fixed and formal system. But as soon as the European wars ended in 1815 and Europe prepared to compete in the American market, an overwhelming cry went up for Customs duties, and these were accordingly imposed in 1816. As is so often the case, this tariff failed to satisfy its beneficiaries, and so, in 1828, the "tariff of abominations," as it was known in American phraseology, was instituted, only to be succeeded by another in 1832. This latter was presently modified by the so-called "compromise" tariff, itself destined soon to be swamped by the higher rates enacted in 1842.

So far, then, as the first half-century or so of the constitutional life of the Republic had proceeded, it would seem that the tariff advocates had had things much their own way.

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But now the South, whose interests did not lie in manufacturing, and the West, whose interests were divided in this matter, began to exhibit, in the first case a really hostile, and in the other case a lukewarm, attitude. In these circumstances the Republican Party was organised in 1854, in order, among other things, to safeguard the interests of the industrialists. Their immortal champion, Abraham Lincoln, was a Protectionist, and the Civil War, like other wars, brought with it, among its by-effects, an enhanced and fortified tariff barrier. Suffice it that the average rate of the tariff was raised from about 19 per cent. up to about 47 per cent. at the conclusion of hostilities.

It was at about this level that the tariff remained for the next quarter of a century. For though the Democratic President Cleveland denounced the tariff of his time as being "vicious and illegal and inequitable," the only outcome was that the famous McKinley Act of 1890 raised the average rate to close upon 50 per cent. Again a slight reduction followed, and then a big increase. For under the Dingley Act of 1897 the average rate was

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hoisted to the highest point yet attained, namely 57 per cent.

This tremendous tariff remained undisturbed for twelve years until the Payne-Aldrich Act was passed, which, however, achieved nothing very decisive, though the average rate was slightly lower. It remained for the administration of Woodrow Wilson to achieve something relatively important, when, in the Underwood Tariff Act of 1913, the duties were lowered to a little over 30 per cent. The anticipated fall of the revenue consequential upon this measure brought to a head at last the question of the Income Tax, which had then to be passed.

It may seem altogether astonishing that a measure of taxation such as an Income Tax should not have been established in the United States until 1916. The plea, however, was that the Constitution forbade it. But to meet this objection all that it was necessary to do was to amend the Constitution, in accordance with the terms of the Fifth Article of that instrument. Accordingly, in 1913 this obvious and necessary amendment, Amendment XVI of the Constitution, was finally authorised,

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granting to Congress the power "to lay and collect taxes on incomes from whatever source derived."

How was it that the primary axioms of modern taxation were not put into force during the long period of American history extending from the days of Hamilton and Jefferson up to our own? It would be idle and superfluous to entertain the idea that American statesmen were less able and energetic than those of the Old World. Hence, if no equitable method of taxation was instituted, at any rate until the War, and if, as their Monetary Commission itself established, their currency and banking systems were disorganised and out of date during that extensive period, assuredly some factors of hitherto unexplored significance and importance must have been standing in the way.

In order to see clearly what these obstacles to sound finance have been, we may inspect the case of those taxes, supplementary to the Income Tax, which are known in America as Inheritance Taxes, and with us as Death Duties.

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From the earliest period of its existence the Federal Government made tentative attempts, in 1798, in 1815, and again in 1862, to impose such duties, but their efforts were quite unimportant, and, if the proposals reached the Statute Book, they were soon repealed. The first serious essay in this direction was undertaken in 1894. But the National Revenue Act of that year was promptly annulled as unconstitutional by the Supreme Court. Following on this, a still more elaborate measure was enacted in 1898 in connection with the costs of the war with Spain. But, after amendment in 1901, it was actually repealed in 1902.

This summary very briefly indicates the unavailing activities of the Federal Government, in regard to this important branch of direct taxation, up to the enactment, at last, of the law of 1916, entitled the Federal Estates Tax.

Even this impost too has had a stormy career since then. Perhaps the Supreme Court would have annulled it, as was the case with its predecessor, if it had not been held that "in the last analysis the Federal Estates Tax was

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a war measure and has been sustained as such.”¹

The fundamental reason of the difficulties experienced by the Federal Government in this particular respect is that the various States of the Union, during the century preceding 1916, themselves exhibited a keen appetite for Inheritance Taxes. Pennsylvania was the first State to pass an Inheritance Tax of its own in 1826, while Louisiana and Virginia presently followed suit. To summarise the subsequent facts, a marked activity was exhibited in this branch of taxation from the year 1890 onwards, with the final result that the post-war position attained is that, of all the States and Territories of the United States, there are, or were till very recently, only two States, Alabama and Florida, together with the District of Columbia, which do not have Inheritance Taxes in one form or another. The confusion is accentuated by the fact that the situs for taxation of the intangible property of a non-resident decedent is regulated in various ways by the different States. There are only a few States which

¹ Gleason and Otis, *Inheritance Taxation*, 3rd edition, p. 542.

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carry the maxim, *mabilia personam sequantur*, beyond the grave, so as to abstain from taxing the intangibles belonging to a non-resident decedent.

On the whole, and to avoid wearisome details, it may be said that there are four marked tendencies in the Death Tax legislation of the States. First, they are relying more and more upon the revenue derived from these taxes for their State budgets. Next, there is a constant tendency to increase the rates. Thirdly, the States are trying to assess all property that is possible for them to reach, regardless of duplication. Fourthly, they are amending their laws and rulings so rapidly that it seems difficult for the most trained expert to keep touch with their involved proceedings.

The result is that in this bewildering chaos of confused laws and contradictory jurisdictions, many States have actually petitioned Congress in the strongest terms for the abolition of the Federal Estates Tax altogether.

We can now begin to observe what are the real troubles inherent in the situation of the financiers of the Federal Government.

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Throughout the history of the Republic they have had to contend with special and outstanding difficulties, difficulties which, as time has gone on up to our own hour, have by no means tended to decrease. Inside the Republic they have had to encounter able and active competitors, the opposition or the rivalry of almost independent authorities, bent on having their own way in matters of finance.

Besides this patent and permanent trouble, it cannot be concealed that the financial methods of the individual States have not failed to add indirectly to the embarrassments of the central authority. In an authoritative investigation, published not long ago under the auspices of the Academy of Political Science in New York, and edited by an economist of international standing, Professor Seligman, we read many disturbing asseverations upon this matter. "We found . . . in this State a chaotic hodge-podge of business taxation, a perfect jungle of taxation, the successive amendments to the law having been added from year to year and almost from generation to generation with very little thought at all about the

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principle of equality or the principle of justice." Or again, reference is made to "the system in a State like Pennsylvania, where . . . the manufacturing group pays practically no taxes at all, and never has paid any taxes, except as campaign contributions to the reigning political machine in that State."¹

In the same publication it is even indicated that some of these strictures on the financial administration of the States are equally applicable to the Federal system. For instance, the Professor of Political Economy at Yale University, who has been "rather intimately familiar with the tax functions of the Bureau of Internal Revenue since the summer of 1917," declares his opinion that "the Federal Income Tax, as it works, is not merely defective, but has reached a condition of inequality the gravity of which can scarcely be exaggerated. . . . How long will it be before Congress seriously undertakes to solve these difficult problems? . . . Have we reached the stage where nothing short of scandal and graft will prompt remedial action?"

¹ Proceedings of the Academy of Political Science in the State of New York, Vol. XI. No. 1, May 1924, pp. 84 and 91.

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If so, there are evils even more menacing than the degeneracy of the Federal Income Tax with which the American public must cope.”¹

It is desirable that we should check and verify the above conclusions as to the standing difficulties encountered in Federal finance by referring to the observations made, not only long ago but also recently, upon this very subject by two of the most commanding and penetrating minds which have ever observed America. The first of these, Alexis de Tocqueville, wrote his famous work on *Democracy in America* during the years 1832 and 1834.

This new Montesquieu, as he was described at the time by Royer-Collard, paid no attention throughout his wonderful volumes to subjects of finance, except in one instance, that of the then existing Second Bank of the United States. After dwelling upon the advantages of central banking, De Tocqueville proceeds: “The Bank of the United States is, nevertheless, the object of great animosity. . . . The Bank may be regarded as the great monetary tie of

¹ Proceedings of the Academy of Political Science in the State of New York, Vol. XI. No. 1, May 1924, p. 25.

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the Union, just as Congress is the great legislative tie, and the same passions which tend to render the States independent of the central power contribute to the overthrow of the Bank. . . . The provincial banks submit with impatience to this salutary control. The newspapers which they have bought over, and the President whose interest renders him their instrument, attack the Bank with the greatest vehemence. . . . The contest between the Bank and its opponents is only an incident in the Government struggle which is going on in America between the provinces and the central power, between the spirit of democratic independence and the spirit of gradation and subordination.”¹

This brief observation of De Tocqueville, which he made long ago as regards the difficulties in the way of American banking has been remarkably reinforced as regards their taxation by Lord Bryce in his famous work on *The American Commonwealth*. On this theme his usually mild and magisterial style

¹ *Democracy in America*, English edition, London, 1836, Vol. II. pp. 411-13.

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assumes animation, and the flow of his equable and exhaustless exposition takes on more current and more head. He points out in his edition of 1910¹ that the revenues of the various States of the Union are substantially based on valuations of property, but he goes on to remark that "one hears everywhere in America complaints of inequalities arising from the varying scales on which valuers proceed." Further, he dwells on the prevailing system of manipulated returns which enables "a very large percentage of property to escape its lawful burdens. . . . There is probably not a State of the Union of which the same thing might not be said."

And this is not a momentary or casual evil. Lord Bryce quotes as typical a public message of the Governor of Ohio : "The great majority of the personal property of this State is not returned, but is entirely and fraudulently withheld from taxation." Lord Bryce himself concludes with the startling verdict that "we may, in fact, say of most States . . . the richer a

¹ Cf. Vol. I. Part II. Cap. XLIII., "State Finances," edition of 1910.

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man is, the smaller in proportion to his property is the contribution he pays to the State." What applies to private persons appears equally applicable to corporations, for "the methods of taxing corporations vary greatly from State to State, and are at present in a chaotic condition."

Such, then, are the standing circumstances which readily account for the fact that, in spite of all their qualifications and all their energy, in spite of all their statistics and all their business principles, the Federal authorities, in the course of the long history of the Republic, have found it difficult to construct an up-to-date system of taxation.

Writing in 1926, the excellent economic historian of the United States acquaints us with the results of the system of public taxation hitherto pursued. "While no absolutely exact statistics exist on this subject, yet reliable estimates by scientific students all tell the same story of concentration of wealth in the hands of the richest group."¹ Certainly, a study of

¹ E. L. Bogart, *The Economic History of the United States*, pp. 568 and 570. Cf. also *Income in the United States: Its Amount and Distribution, 1909-19*, New York, 1921, by various authors.

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the history of the probated estates in Massachusetts, made recently by the State Bureau of Statistics of Labour, appears to confirm that view. Continuing his analysis, the authority in question comments further on the "grossly inequitable distribution of wealth," and proceeds to observe that "the great fortunes of the United States have been made possible by the unrivalled opportunities for the exploitation of natural resources, the appropriation of natural monopolies . . . many of the natural resources have been monopolised by a few, who have become wealthy with the increase of population and the development of new lines of trade and manufacture." His conclusion is that "there is finally an inconsistency, not to say a danger, in a society which is politically democratic, but economically plutocratic."

Accordingly, having shown in the preceding chapters that the long line of American statesmen, eminent as they have been, were not able, up to the War at any rate, to construct a sound monetary or sound banking system, we have now ascertained also that the same observa-

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tion must apply to the taxation side of their budgetary system. But what of their expenditure? The expenditure side of their public finance account falls to be dealt with in the next chapter.

CHAPTER IV

AMERICA'S RECORD IN EXPENDITURE

So far, then, as our examination has proceeded, it seems that, in normal times, or at any rate up to the date of the War, the United States never developed an adequate system in the domain either of currency, of banking, or, so far as taxation is concerned, of public finance. But, before this part of our argument is concluded, we have to consider their record in public expenditure.

Acting on the sage recommendations of the "Fathers" to avoid entangling alliances, the statesmen of America were able to steer clear of any serious external warfare during a period of a century and a quarter since the days of Washington. True, they had indulged in a little "scrapping" with France at the close of the eighteenth century; then there had been "the War of 1812" with Great Britain;

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also the war with Mexico from 1845 to 1848, in which, however, "the hostilities were on a small scale";¹ and finally they embarked upon the short-lived war with Spain in 1898. But all this was relatively of a minor order, and produced singularly little effect upon the pacific disposition of the nation. In 1907, "when Bryce first came to Washington as Ambassador, the Spanish War was a very recent memory. Nevertheless, it was curious to note how faint was the reverberation of that event, and how swiftly America had fallen back upon her traditional attitude of isolation. . . . So powerful still remained the ghost of George Washington, counselling non-intervention in the affairs of the Old World."²

In the circumstances it is only natural that the capital of the National Debt, and, correspondingly, the annual sum devoted to the service of that debt, should have been kept very low in the annual accounts of the nation. This sound policy of strictness in recognising

¹ *The United States as a World Power*, A. C. Coolidge, 1908, p. 35.

² *Life of James Bryce*, by Rt. Hon. H. A. L. Fisher, 1927, Vol. II. p. 12.

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the national obligations and of prudence in reducing them steadily by repayment and conversion had been instituted by Alexander Hamilton, the first Secretary of the Treasury of the United States, in the year 1789.

In his famous Report on the Public Credit he urged that the public debt, which was then about £15 million, should be actively liquidated. He supported President Washington's recommendation for "the adoption of a definitive plan for the redemption of the public debt and the consummation of whatsoever may remain unfinished of our system of public credit, in order to place that credit, as far as may be practicable, on grounds which cannot be disturbed, and to prevent that progressive accumulation of debt which must ultimately endanger all government."

In his Report on Manufactures submitted to Congress in December 1791, Hamilton also represented that "as the vicissitudes of nations beget a perpetual tendency to the accumulation of debt, there ought to be, in every government, a perpetual, anxious and unceasing effort to reduce that which at any time exists, as

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fast as shall be practicable, consistently with integrity and good faith." To their honour be it said, the Federal statesmen have consistently followed these principles of debt reduction.

To examine their policy in this respect, detail by detail, would be tedious and unnecessary. Suffice that, up to the opening of the Civil War in 1861, the debt, in spite of all the troubles of the preceding years and of the vast growth of the United States in wealth and population, had not advanced from its original amount. By the end of 1865, when the Civil War had already closed, the net debt had, indeed, risen gigantically to about £560 million, or close upon £16 per head of the population of those days. Nevertheless, so carefully was the policy of reduction pursued after that date that, when the United States entered the War in 1917, the capital figure of the net debt was only about £258 million, constituting a burden of about £2 7s. per head of the population. This was considerably less than 1 per cent. of the national wealth, and was thus a burden five times lighter, on that comparison, than our own.

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Indeed, a calculation of the grand average total of the pre-War national debts of all the active belligerents in the War, on both sides, shows that the average ratio of their total national indebtedness to their national wealth was 5 per cent. That of the United States was, as stated above, considerably under 1 per cent.¹ Further than this, thanks largely to the excellent policy pursued since the year 1900 for refunding the debt into 2 per cent. thirty-year gold bonds, the annual service of the debt, on America's entry into the War, would be only about £5 million a year. Further, there was no foreign debt to be discharged. And lastly—a point of technical importance—the ratio of the floating part of the debt to the funded part thereof was about 20 per cent., and therefore could not be considered unduly high. Altogether, the burden of the National Debt of the United States was far less than that of any other important Power in the world.

While we accord all honour to the financiers of the United States for their management of

¹ Cf. *The Inter-Allied Debts*, published by Bankers' Trust Co., New York, 1924, p. 324.

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this portion of their national expenditure, there is, unfortunately, an additional story to be told which, by the way, powerfully illustrates the theme of this and the preceding chapters. These unsatisfactory considerations must be gathered from the annual Reports of the Corporation of Foreign Bondholders of London, during the last twenty years up to date, and also from the recent proceedings of the Association of British Chambers of Commerce. The matter is so important that it had best be presented by quoting the resolution passed by the latter body on April 22, 1926.

“ That the attention of the Government of the United States be respectfully drawn to the following :

“ 1. That Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina and South Carolina have defaulted on their debts for moneys lent for industrial purposes and for national development.

“ 2. That the eight defaulting States are now wealthy and should meet their obligations.

“ 3. That in view of the 11th Amendment to the Constitution of the United States which

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prevents an individual bringing a suit against a State in the United States Courts of Justice, it is hoped that the Federal Government of the United States of America will take such action as may appear proper to it to remedy the injustice, and will assist the creditors to obtain a hearing of their claims against the said States of the Union in the Supreme Court of the United States.

“ 4. That, in order to avoid any suggestion that the debts now under discussion represent money lent to the Southern States in connection with their struggle against the Federal Government of the United States, this Association is willing that claims against the eight defaulting States, which arose within the period April 12th, 1861 (the attack on Fort Sumter), and August 17th, 1866 (the Proclamation of the close of the Civil War), be ruled out as far as this present resolution is concerned.”

It must unfortunately be added that time and again during the two last decades the Council of Foreign Bondholders has vainly protested in this matter. In the Report for 1926 we read as follows :

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“It is with much regret that the Council have again to record the painful fact that eight of the States of the great and wealthy American Union have not only for a prolonged period failed to pay their public debts, but have actually taken the amazing step of repudiating their obligation to do so.

“It must indeed be a disagreeable spectacle to most Americans to see these defaulting States sheltering themselves behind one of the Amendments to the Constitution of the United States, which prohibits their creditors from bringing them into court, while they continue year after year openly violating the provision of the Constitution which forbids any State of the Union to impair the obligation of contract. This must be doubly humiliating at a time when the United States are insisting on the repayment of the money borrowed from them by European countries in order to carry on a war against a common foe, in the success of which they were so vitally interested.”

The loans referred to appear to have been in default for periods varying from thirty-six years to eighty-six years. They are stated to

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have been raised for the purposes of public improvements, and do not include "Confederate Bonds" or War debts. Leaving out of account the accumulated interest, which in most cases was at the rate of 6 per cent., the capital amount in default is stated to be approximately £15 million.

Thus, as in the cases previously examined, we again observe, on the one hand, a statesmanship and a financial policy as enlightened and as respectable as any in the world; but, on the other, the best effects of that statesmanship and of that financial policy counteracted, and even marred, by domestic forces too strong for the control of the central authorities.

Since this chapter is concerned generally with the principles regulating the expenditure side of the United States budgets up to the date of the War, it falls next to analyse their treatment of that other most important item in the expenditure of modern nations, the outlay on national defence.

It was observed above how peaceful a nation the United States have generally shown themselves to be during the course of their history.

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Hence it would appear inevitably to follow that their annual disbursements on military charges and purposes must have been on a very modest scale up to the date of the War. Accordingly, it may seem surprising that in the year to June 30, 1914, the expenditure on this item was, out of a total budget of £140 million, the very considerable sum of £86 million, or 57 per cent. But of this total no less than £37 million was being devoted to military pensions. What had been the justification for this immense annual outlay on military pensions on the part of a people so persistently and so eminently pacific?

We touch here upon a theme very necessary to be noticed for our present purpose, and also, be it added, probably without parallel in the history of public expenditure of any State. Midway in this story rises the figure of Grover Cleveland, President of the United States from 1885 to 1889 and again from 1893 to 1897.

On entering the presence of President Cleveland towards the close of his last term of office, I saw before me, to adopt the somewhat

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irreverent phrase of Lowell, "a man with the neck of a Minotaur." His massive and rugged countenance, his "brows of dauntless courage," the care that "sate on his faded cheek," inevitably called to mind the famous lines of Milton. But his level and penetrating glance bore witness to that "instinctive and immovable integrity" which Mr. Elihu Root, in paying tribute to his memory, has recently ascribed to him. At any rate, to quote the characteristic words of President Woodrow Wilson, here was "the sort of President whom the makers of the Constitution had vaguely in mind."

Nevertheless, it was disappointing and disturbing to observe that, as he discoursed with appropriate moderation on the difficulties besetting him on all sides, beneath the immediate surface of his utterance lay the acknowledgment of failure, the consciousness of final defeat.

His career I knew. Then and thereafter I followed it with immense interest. Left a penniless orphan in the early 'fifties, the boy had set forth, with a few borrowed dollars in his pocket, for the great adventure of those days, the trek to the West. But somehow he

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had stuck at Buffalo, where, out of some wretched earnings, his first duty had been to repay his debt. He became a lawyer—and remained an honest man. Born of the good old Puritan stock, he rose quickly by dint of his stupendous industry and iron character from post to post, from Assistant District Attorney to Sheriff, and thence to the mayoralty of Buffalo. A “veto” Mayor of Buffalo! The phenomenon of such a mayor rang round the United States.

So fame began. New York itself must needs secure this strange specimen of an administrator, and thus in 1882, he was elected Mayor of New York, in which position he fought Tammany, and its *Catilinæ gladios*, for all he was worth.

Meanwhile, in Federal politics the Republican Party was rapidly breaking up. It had been too prosperous, with unfortunate results for its cohesion and its credit. Since the Civil War days it had won all the Presidential elections by “waving the bloody shirt,” that is to say, by polishing and repolishing the memory of its victories for the Union. But as the passage

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of time dimmed these heroics, its administrative records came out too much into the searchlight of day. Finally, in 1884, some of its best supporters, the so-called Mugwumps, split the organisation from within, and through the void thus made emerged the burly figure of Grover Cleveland. As the first Democratic President since the war, and as the representative, so far as votes were concerned, of the Solid South, he symbolised reconciliation. With him in office, the memories of Lee and the memories of Lincoln could be merged in the conception of a Republic, One and Indivisible.

But, what is to our present purpose, he was called upon, besides, to solve the practical and urgent problem of securing a sound monetary system and of establishing a sound budget. On the accomplishment of these great tasks President Cleveland staked all his energies, and it was here that he failed. Unluckily for him, from 1892 onwards, the Populist Party had split the Democrats, even as the Mugwumps had already split the Republicans. It was a time of strange unrest. The lava of old, volcanic, revolutionary Europe seemed still to

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simmer on the western prairies and beneath the snowy wall of the Rocky Mountains. Among the cotton-fields of the South, in the mining camps of Colorado, along the droughty plains of Kansas and Nebraska, and through the stockyards and factories of Chicago, a subterranean tremor of economic discontent, of social animus, coming no one knew whence and passing no one knew whither, ran along. It was of this half-revolutionary spirit that Bryan presently stood forth as the spokesman. On the other hand, President Cleveland scarcely possessed the subtlety, the swift imagination, in a word the genius, to place himself at the head of this tidal march of thought. So it submerged him. He sank under it. To counter Bryanism, all that he could do at the election of 1896 was, in effect, to hand back the Presidency to the Republicans. After that, politics knew him no more.

But it was in regard to his other policy, his campaign for sound principles of public expenditure, that his failure was most conspicuous and most deplorable. This failure can be reconstructed from a study of the

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Reports of the Commissioners of Pensions and of the United States Statutes at Large, not to mention his own Messages to Congress.

It can be affirmed, on the indisputable authority of the Reports of the Commissioners of Pensions, that from the date of Abraham Lincoln's assumption of the Presidency on March 4, 1861, up to the date of March 4, 1899, the Congress of the United States passed, in addition to the General Acts regulating and granting military pensions, the gigantic and unparalleled total of 6,791 Special Pension Acts. These Acts were passed first in order to validate claims for pensions not allowable under the Statutes, lavish as they were. Next, these Acts were passed in order to validate claims which, though apparently in accord with the letter of the Statutes, were so dubious in statement that the Pensions Bureau itself had felt obliged to reject them.

From these returns it would appear that during Cleveland's first term of office no less than 2,042 Private Pension Acts were passed in Congress, of which the President vetoed 228. This exercise of the veto was creditable, no

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doubt, for no other President except Grant had used his veto at all for that purpose. And Grant himself had only used it on five occasions.

It may be confidently asserted that, from the Arrears of Pensions Act of January 25, 1879, up to, say, the Act of June 27, 1890, no parallel can be found for such legislation. Even in his Report for the early year ending June 30, 1879, the Commissioner of Pensions thus spoke of the Arrears Act: "The present system is an open door to the Treasury for the perpetration of fraud." Congress was not even content to deal with pensions arising out of the Civil War. In 1871 and 1878 it actually passed statutes for granting pensions in respect of services done in the War of 1812! Under the latter two Acts the terms were so arranged that widows, for instance, could receive pensions who had actually not been born into the world at the date of that occurrence.

The consequence of all these operations was that, whereas the number of pensioners on the rolls at the end of the Civil War was 126,722 persons, the number, instead of decreasing

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with the lapse of time, grew by leaps and bounds. In 1876 it was 232,137 persons; in 1886 it was 365,783 persons; in 1896, at the end of President Cleveland's administration, it had risen hugely to no less than 970,678 persons; and by the close of the century it was very close indeed to 1,000,000 persons. The result may be summarised by saying that 1 person in 75 out of the population was now receiving a pension for services rendered in a war which had ended thirty-five years ago.¹

The expenditure on these pensions had, of course, swollen correspondingly. Whereas the outlay for this purpose was a little over £3 million a year in 1866, the corresponding figure at the close of the century had risen to over £28 million a year.

A learned historian of the United States, the Professor of History at Columbia University, in his recent work published in 1924, lifts hands of dismay at all this. For, parallel with the legislators of Congress, worked "a host

¹ Annual Reports of the Commissioners of Pensions up to 1899, showing disbursements, fees and pensions for each fiscal year since July 1, 1865.

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of pension agents, or brokers," who " pervaded the country, soliciting applications from soldiers or their dependents who could produce any shadow of a claim to compensation by the Government." He confesses to alternate amazement and amusement on studying the Messages and Papers of the Presidents, in regard to the claims pressed by Congress upon President Cleveland. " No wonder that the President indulged at times in sarcasm when analysing these fraudulent claims, or that he indignantly exclaimed at the end of one of his Messages : ' I believe that if the veterans of the war knew all that was going on in the way of granting pensions by Private Bills, they would be more disgusted than any class of our citizens.' " ¹

" I have tried so hard to do right "—such were the last words uttered in June 1908 on his death-bed by this defeated warrior of Democracy. History, accepting an utterance so worthy of the man who made it, must still inquire as to the results of his public work.

¹ *The United States of America*, by the Professor of History at Columbia University, D. S. Muzzey, 1924, Vol. II. pp. 172, 173.

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First and foremost, he closed the epoch of the Civil War. Next, he opposed Bryanism, as he himself was the first to term it, and with such effect that, on receiving the news of the defeat of 1896, Bryan could exclaim, though with the most flagrant inaccuracy and injustice, "I have borne the sins of Grover Cleveland." But, last of all, the President went down in his great fight against the Pensions expenditure. In that crucial contest, not even one of the most resolute and most upright of the long line of American statesmen—not even a Minotaur—was strong enough for victory.

CHAPTER V

THE IMPACT UP TO 1860

OUR examination of the actual results achieved by the United States up to the date of the War, in currency, in banking and in public finance, authorises the conclusion that in these departments, at any rate, few signs can be observed of any marked superiority.

It is necessary, however, to proceed a step further into the subject. Currency, banking and budgets constitute, indeed, essential factors in the economy of nations, or rather they constitute one single factor. For they are indissolubly intertwined, in the sense that, if one of them goes to wreck, its catastrophe entails disaster for both its fellows. For instance, a bad currency plays havoc with the soundness of banks and of budgets alike, and similarly with the other two.

Taking, then, the three together as one,

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they may be defined as constituting no more than the agents, the organs, of material prosperity. But the body, the substance, of that prosperity is the industry which supports them and from which they spring. Accordingly, it is indispensable, and in the logical order, that we should now deal with the question as to how far, in normal times and up to the date of the War at any rate, American industry impinged upon the economic life of Britain. After elucidating that matter, we can then go forward into our own hour, bent on the same economic inquiry; and lastly, from the basis and foothold of that conclusion we can make so bold as to estimate the future of this problem.

It is relevant to recall the fact that, during the century which elapsed from our "Glorious" Revolution of 1688 and throughout the major part of the eighteenth century, the fear of the economic impact of America was a guiding sentiment in English economic policy. Indeed, it was that fear which actually lost us America. Or, at any rate, the statutes which were prompted by that fear did the deed. As Arthur Young, in his preface to his *Tour in*

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Ireland, published in 1780, so excellently observed: "Nothing can be more idle than to say that this set of men, or the other administration, or that great Minister, occasioned the American War. It was not the Stamp Act nor the repeal of the Stamp Act. It was neither Lord Rockingham nor Lord North. But it was that baleful spirit of commerce that wished to govern great nations on the maxims of the counter."

Mr. Lecky, the historian of eighteenth-century England, has pointed out in his standard work that the disaster of separation was fundamentally due to "a false theory of commerce, then universally accepted," *i.e.* the Mercantile Theory. As a result of our acting upon this theory, "the real evil of the Colonies lay in the commercial policy of the Mother Country, in the system of restriction intended to secure for England a monopoly of the colonial trade and to crush every manufacture that could compete with English industry."¹ He further submitted the striking

¹ *History of England in the Eighteenth Century*, 1882, Vol. III. pp. 295 and 302.

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observation that, if only *The Wealth of Nations* had been published by Adam Smith a century earlier, and if its principles had passed into legislation, the tragedy of rupture might well have been indefinitely adjourned.

This was with reference, of course, to that wonderful and luminous argument employed by the Father of our Economics in support of his belief as to the extent of "the advantage which Europe has derived from the discovery of America." After combating the Mercantile Theory with destructive effect, Adam Smith concluded that "under the present system of management, therefore, Great Britain derives nothing but loss from the dominion which she assumes over her Colonies."¹

It must be said that Mr. Lecky's statement as to our commercial policy towards the Colonies is too absolutely phrased. For throughout the colonial period England conferred immense benefits on her dependencies, who were enabled, in an age of world-wide conflicts, to enjoy great prosperity under her protection. The

¹ *Wealth of Nations*, McCulloch's edition of 1828, Book IV. Cap. VII. Part III. p. 45.

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excellent American author of *The Economic History of the United States* has treated us in this respect with justice and consideration. "When the first settlements were made in America they were granted complete exemption from trade restrictions," and this lasted in complete form up to the Navigation Act of 1651. Later, increasing restrictions were imposed according to the prevalent theory, but "the actual effects of the restrictions upon the commerce of the Colonies have been greatly exaggerated." It is true that between 1651 and 1761 upwards of twenty-five Acts of Parliament were passed in regulation of colonial trade. But "the laws were allowed to become dead letters, or were not strictly enforced by English officials."¹ After 1763, when the Seven Years' War had been concluded, and the Colonies had been saved, the restrictions began to be tightened up, very unwisely no doubt. The fact was that, once the Colonies had been definitely freed from the over-

¹ *The Economic History of the United States*, by E. L. Bogart, Professor of Political Economy, Illinois University, 1926, pp. 84, 87 and 89.

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shadowing power of France, renewed fears began to be entertained by our commercial classes, who had seized power at the "Glorious" Revolution, that the Colonies would compete actively with the industries of the Mother Country.

So, animated by their undue anxiety lest the economic impact of America should hurt them, our ancestors flew to legislative arms. Hastening round the ramparts of the Constitution and diving into its dungeons, they roused the sleeping trade laws from their trance. Unhappily, in so doing they roused also, to their own, and to our, detriment, that strong spirit of liberty of which they should have measured the range and the reverberation; for, indeed, it was their own. In Edmund Burke's magnificent language: "By such management, by the irresistible operations of feeble councils, so paltry a sum as threepence in the eyes of a financier, so insignificant an article as tea in the eyes of a philosopher, shook the pillars of a commercial Empire that circled the whole globe."¹

¹ Edmund Burke, *Speech on American Taxation*, 1774.

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It might be thought that, when the United States had once secured their independence and had organised their Government in 1789, their economic impact upon us would have been felt very decidedly by those merchants who had so long anticipated it. Were they not now free to work their unimpeded will and to show their strength? But, on the contrary, in the wayward manner so favoured by things economic, this did not happen at all. Several fortuitous reasons combined to adjourn any such occurrence.

In the first place, this was the opening age of the immense industrial progress of Great Britain herself. Our Industrial Revolution may be dated, a little arbitrarily, from the year 1770, and thus corresponded in time with the breach with America. As a result of our new-found industrial power, the Americans found it cheaper to buy English goods rather than to produce them at home, and thus their manufactures continued to languish on the whole. For example, so slow was the expansion that in 1804 there were only four cotton factories in the whole country. Mean-

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while England, in spite of the nascent Protective system of America, found scope for her energies by exporting manufactured goods. Thus in spite of political independence, industrial independence had not been achieved by the United States, who were still almost under the ægis of Great Britain in this respect, as they had been in the old Colonial days. They continued to procure the major part of their manufactured commodities from ourselves.

Besides this reason, there is another to be found in the results of the European wars from 1793 to 1815. These wars had stupendous effect upon the United States. American merchants, being citizens of a neutral Power, soon acquired the only considerable neutral merchant fleet in the world, and became the principal carriers of international trade. As has been well said, "while the great commercial nations were fighting one another for the carrying trade of the world, America ran away with the bone over which they were quarrelling." The tonnage of American vessels grew from 346,000 tons in 1790 up to close on 1,000,000 tons in 1812, while the

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percentage of their foreign trade carried in American bottoms increased from 25 per cent. to 91 per cent. The shipbuilding industry prospered correspondingly, so that, in fact, the increase of their tonnage had no previous parallel in economic history.

Thus, by a surprising turn of fortune, it was in trade and shipping, and not in industry, that the United States suddenly appeared before us as a formidable rival. It should be added, however, that this predominance was not very long-lived. Compromised by the series of Embargo and Non-intercourse Acts, by the English Orders in Council and by Napoleon's Berlin and Milan Decrees, and endangered further by the resumed activity of Great Britain on the seas, American shipping predominance did not endure for very long at this time. Already, by 1813, their tonnage engaged in foreign trade had fallen back to the lowest point since 1805.¹

Another important factor, accounting for the postponement of any economic impact upon us, was produced by the intense absorp-

¹ E. L. Bogart, *op. cit.*, Cap. VIII. *passim*.

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tion of America in its exportation of food-stuffs as opposed to manufactured goods. Since Europe was now intent on fighting rather than on raising food, and as Napoleon prevented exports from the Baltic region, which had hitherto been the granary of Europe, there was an unprecedented demand for food-stuffs and raw materials—flour, wheat, meat, cotton, wool and tobacco. Hence gigantic profits for American farmers. For example, the repercussion of European demand upon cotton-growing in the Southern States may be judged from the fact that, in the twenty years from 1790 to 1810 alone, that production soared from $1\frac{1}{2}$ million lbs. to no less than 101 million lbs.

In his work on *The Making of the Nation*, President F. A. Walker has ascribed the predominance of agriculture in American history to the vast breadth of the virgin lands, to the excellent laws of tenure, registration and transfer, and to the fact that in this case the agricultural class never was a peasantry, in the depressed European sense, but was regularly recruited from among the most active and

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alert minds—minds very apt in mechanical insight and invention. But we may also assuredly attribute the mighty expansion of agriculture at this period to the vast stimulus applied to it by the European wars. The bearing of all this upon our argument is that, for many decades after the Declaration of American Independence, the impact of America upon Great Britain was not serious in regard to industry. It was America who had reason to fear England, and not vice versa, as we may judge from the organisation of their tariff policy, which had as its chief aim defence against our manufactured products.

The total effect of the European wars, 1793 to 1815, upon the question under review was, accordingly, rather to create a new economic life inside America than to cause her to be commercially active without. The day of onset was still far off. The opening decade of the nineteenth century was, perhaps, the real formative period of American economic life, even as the decade commencing in 1770 had been for England, and as the decade commencing in 1860 was to be for France.

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The South took shape and substance, aided by the enormous war-demand for raw cotton. The West entered with all its energies upon the path of agriculture, aided by the not less voracious war-demand for food-stuffs. Finally, the manufacturing East arose as an industrial power, in order to minister to the West and South in the articles required for their new and gigantic expansion.

Still in pursuit of our analysis, we must be careful to realise that all these multiform activities issued principally in internal rather than external trade. A tripartite exchange of goods arose, the East selling its manufactures to the West, the West selling its food-stuffs mainly to the South, and the South forwarding its raw materials, mainly cotton and tobacco, over the seas to Great Britain. A complicated round-about trade, very advantageous to all parties concerned, and not least to ourselves. Here was no impact upon us, but only a fruitful receipt of raw materials and food. On this basis, the United States by the year 1860 had taken the fourth place among the exporting nations of the world.

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An illustration and verification of the above propositions may be suitably furnished. The Secretary of State for the Treasury, in his Report for 1848, estimated that "the value of our products exceeds £600 million. Of this only about £30 million is exported abroad." Proceeding to the year 1860, the best calculation of internal commerce of the United States for that year is, that it was about £700 million, while the external commerce, though in that particular year it was highly stimulated, was not more than £60 million. These figures indicate the ratio in which the attention of American men of business was fixed on their internal operations as distinguished from those abroad.

Concentrating our attention upon the external trade of America during this period and analysing its nature, we arrive at a striking and suggestive conclusion. The place which agricultural products occupied for the year 1800 was 80·4 per cent., while manufactures constituted only 7·8 per cent., the balance being made up by miscellaneous articles. During the next sixty years these ratios were

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remarkably steady, and the percentage of agricultural products did not vary more than a point or two. Thus in 1860 the percentage of agricultural products was 81·1 per cent., while that of manufactures was 12·7 per cent., the balance being made up by miscellaneous articles. It is very instructive and relevant to note how stable, in spite of the gigantic changes and expansion proceeding in America during that long period of sixty years, the trade proportions were, and how little we had to fear from the American impact.

During the period up to 1860 our economic relationship with America began to extend in volume rather than to alter in character. During the seventeenth and eighteenth centuries Great Britain had already commenced to invest capital in American cotton or tobacco plantations, all, however, on a small scale. In the third decade of the nineteenth century, regular investment began, and in virtue of these advances the United States became presently the greatest purchaser of our exports. In the year 1800 the document which now corresponds to the Stock Exchange Official

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List contained no quotation of American securities. In 1825, however, nine issues of United States Government bonds and several City and State loans were quoted on our Exchange. In fact, President Jackson in 1839 estimated that European holdings, that is, mainly British holdings, in State and corporation bonds amounted to £40 million. At about the same date, "bonds of all kinds, issued by the Bank of the United States, by various States of the Union, and by numerous private undertakings, were poured into the English market and found eager purchasers."¹

Thus in the nineteenth century Great Britain opened her investment connection with the United States mainly by financing public institutions. Abandoning this field when so many of the States repudiated their obligations and when State credit sank to a low ebb on our market, she proceeded to finance private enterprise, chiefly in the shape of railways. The first recorded loan for American railways was done in 1836, when Baring Bros. issued

¹ Gilbart, *History, Principles and Practice of Banking*, Vol. I. p. 315.

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in London a loan of £400,000 on behalf of the Baltimore and Ohio Railway, the pioneer of American railways, which had been opened for traffic in 1830. But it was not till the 'fifties that American railways came to be financed here on any serious scale, though they were destined presently and in the future to be the chief form of our capital investment in America. By 1860 30,000 miles of railway had been built there, and at about that date £18 million of American railroad stock was computed to be held in England.¹ Railways, thus assisted by Great Britain, in some sense made the modern United States.

If we, on our side, were thus helping to build up the United States, they, on their side, were actively engaged in building up our main manufacture, textiles, by importing raw cotton to our shores.

It must not be supposed that even at this early date our cotton manufacturers were having it all their own way. Already, by 1824, cotton manufacturing was firmly established in America, so that Daniel Webster

¹ Mr. C. Hobson, *Export of Capital*, p. 128.

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could assert that "We are already exporting, and the products of our factories are at this moment in the South American markets." From the start the cotton industry led all other manufactures of America in the amount of capital invested, the number of persons employed, and the value of the product. Even as early as 1830 the United States was second only to England in the amount of cotton consumed, and exceeded by England and France alone in the number of spindles.¹

Nevertheless, in spite of this incipient rivalry, we were considerably ahead. In the year 1860 the statistics show that the factories of the United States consumed 432 million lbs. of raw cotton. But, if we refer to our own statistics for that year, the figure of imports into our factories reached the gigantic total of 1,390 million lbs. of raw cotton. Of this total, 1,116 million lbs. came from the United States. In 1790 our total imports of raw cotton had only been 30 million lbs.²

It may perhaps be said, then, that at no

¹ E. L. Bogart, *op. cit.*, pp. 169-70.

² Earl Buxton, *Finance and Politics*, Vol. I. p. 272.

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time during the three centuries which have elapsed since the sailing of the *Mayflower* up to our own day has the economic relationship between Great Britain and America been so well balanced as in the middle of the nineteenth century. It is true that many people were already observing that "the States were becoming England's greatest commercial rival."¹ But that was a distant anxiety, a not too pressing anticipation. For the nonce, at any rate, in spite of Crimean and Chinese and Persian wars, and the Indian Mutiny, and in spite of a commencement of American rivalry, the nation, in Mr. Gladstone's words as Chancellor of the Exchequer, was beginning to revel in "the extraordinary and intoxicating growth of wealth."

So Mammonism, as Carlyle liked to call it, had somehow led us wrong! Those fears entertained of the economic impact of America, which had shaped our commercial policy during a century and a quarter, had been vain imaginings after all. The fruit of these superstitions had been to produce the Trade Laws, those

¹ Earl Buxton, *Finance and Politics*, Vol. I. p. 272.

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statutory threads to bind down Gulliver. And now Gulliver had snapped them all and had left us in the lurch! But not before there had been waged across the Atlantic an impious and fratricidal struggle, "this accursed and abominable war," as Fox called it in the face of the House of Commons.¹

Once released from our economic restrictions, nay, even before the Declaration of Independence, the growth of America had been bewildering. "Whether I put the numbers too high or too low is a matter of little moment. Whilst we are discussing any given magnitude, they are growing to it. Whilst we spend our time in deliberating on the mode of governing two millions, we shall find that we have millions more to manage. Your children do not grow faster from infancy to manhood than they spread from families to communities, and from villages to nations."² It was in such words that Burke could describe their progress, even in the year preceding the

¹ C. J. Fox, *Speeches*, Vol. I. p. 438. Speech of November 22, 1781.

² Edmund Burke, *Speech on Conciliation with America*, March 22, 1775.

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Declaration of Independence in 1776. How would he have spoken if he could have returned to earth in 1860?

Yet, if the United States were making progress, so too was Great Britain, in spite of the staggering burdens left by a quarter of a century of European warfare, and of a whole catalogue of other campaigns of a minor character.

Thus the brethren, who had fought each other twice in unnatural battles, now laboured side by side in the same furrow. Commerce, once the signal of conflict, had become the symbol of association. Two noble peoples were again as one.

CHAPTER VI

THE IMPACT, 1860 TO 1913

IN the preceding chapter it was shown that, for about a century and a half after the original foundation of the American Colonies, the fears of their economic impact upon us so influenced Parliament as to produce a whole crop of restrictive statutes. It was this policy that eventually caused the final rupture between the two nations. Nevertheless, as soon as the Peace of Paris in 1783 had registered the fact of separation, and as soon as the further strife of 1812 had been accommodated, then an advantageous interchange of goods and services sprang up anew. Great Britain immensely assisted the development of the young American people and fostered the growth of their railways by the provision of her spare capital; while the United States, on their side, abundantly served the essential interests of our

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manufacturing industry, chiefly in virtue of their exports to us of raw cotton. Surely, a fruitful and felicitous relationship.

In the present chapter we must proceed, in continuation of our analysis, to survey their industrial impact upon us from the year 1860 up to the outbreak of the Great War of 1914.

Not long after the Civil War was over in 1865, a new economic factor, on a scale hitherto unheard of, appeared in the field and powerfully influenced our fortunes. During the course of the Civil War itself, it happened that the agricultural West, now in rapid course of development, was no longer able to export its food products to the South, which was in arms against it. Consequently, a considerable increase in exported food-stuffs began to flow across the Atlantic to British ports. Yet this was only a trickle, as it were, heralding the onset of the coming flood.

This new and astonishing development arose immediately out of the fact that the American railways were entering in full swing upon their work of exploitation in the Far West, not merely by extending their systems but by

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a progressive lowering of their rates. The railway mileage, which was 30,000 in 1860, had grown to 93,000 in 1880, by which date the great trunk lines were already organised as they exist to-day. That mileage, however, had by no means reached its limit : by lateral extensions and so forth it had grown to the figure of 193,000 by the year 1900. The magnificent energies thus displayed enabled the internal commerce of the United States to expand from about £700 million in 1860 up to no less than about £4,000 million in 1900. This was equivalent to saying that, by the latter year, the internal commerce of the United States was equal to the external commerce of the whole world.¹ Such was the central dominating fact in world economics during the forty years from 1860 to 1900.

What was the nature of the impact exercised upon the economic life of Britain by this tremendous evolution ? It struck us chiefly in the region of agriculture.

During this same period of forty years the farms of the United States increased in number

¹ E. L. Bogart, *The Economic History of the United States*, p. 351.

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from a little over 2,000,000 farms in 1860 up to a little over 4,000,000 farms in 1880. By the year 1900 that figure had reached the colossal amount of 5,700,000 farms. This increase was due mainly, of course, to the taking up of new lands, but it was also partly due to the division of the huge farms of the Far West into smaller ones, as settlement became closer. The United States, as the farms were increasing twice as fast as the population, naturally became the leading exporter of food-stuffs in the world, and from its immense resources was soon in a position to provide one-half of the requirements of all the nations desiring to import wheat.

It would be far beyond our present purpose to dwell further upon the astronomical figures of this expansion, which in speed and magnitude was, no doubt, unparalleled in history. Nevertheless, it is indispensable to our argument that we should realise clearly what reaction, what impact, this agricultural output, or outburst, exerted upon Great Britain. This subject can best be studied in the Reports of the two successive Royal Commissions on Agri-

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culture, which sat respectively in the years
1880 to 1888 and 1894 to 1897.

It would appear that, taking triennial periods, our acreage of wheat during the twenty years from 1875 to 1895 dropped from 3,672,000 acres down to 1,795,000 acres. Simultaneously, our net annual imports of wheat rose from 12,191,000 quarters to 22,896,000 quarters, which meant that the proportion of imported to home-grown wheat rose from 50.50 per cent. to 76.92 per cent. Correspondingly, the price of wheat per quarter of 480 lbs. fell during that period from a fraction under 50s. to a fraction over 24s. Thus the total effect was that the net annual imports of wheat were doubled, that our wheat acreage was halved, and that the price was halved also.

These economic events had naturally a tremendous effect upon the value of British land. At the opening of that period in 1875 the eminent statistician, Sir Robert Giffen, calculated the value of British agricultural land, basing his estimate on the gross annual value assessed to Schedule A of the Income Tax. At the close of that period Sir Alfred,

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subsequently Lord, Milner calculated the amount of this figure on the same basis. The conclusion of these enquiries was that the agricultural land of this country fell during this period of twenty years from a capital value of £2,007 million to £1,001 million, or about 50 per cent. Assuredly this was a convulsion without parallel in an industry so basic and essential as agriculture, and in a country so old and stable as our own.

To present the same matter under another aspect, it appears, from an examination of the farming accounts furnished, that "the farmers have for the past twenty years received on an average only 60 per cent. of the sums which were in past days considered as ordinary and average profit."¹

As regards the labouring population engaged in agriculture, the result was a decline in the number of men employed, which diminution, however, enabled an improvement to be secured in the condition of the remaining body of labourers. "This improvement, though in some measure due to an increase of earnings,

¹ *Report of the Royal Commission on Agriculture, 1897, p. 31.*

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is, very largely, the result of the cheapening of commodities which are the necessaries of life.”¹

As regards this, it may be added that, during the same period, our average annual consumption of wheat per head, including seed, rose from 5·94 bushels to 6·14 bushels.

The main cause of this rural revolution originated in the United States. If we compare 1875 with 1895, it seems that in the earlier year, of the total wheat imported into the United Kingdom from foreign countries, about 41 per cent. was already arriving from the United States, Russia coming next with about 16 per cent., while the other nations were providing small ratios, none larger than 10 per cent. The United States ratio of 41 per cent. quickly rose, however, and fluctuated during the next twenty years up to 1895 closely around 50 per cent.

The same agricultural story, though with one striking variation, can be told of our meat supply during the same period. The production by the United States in regard to cereals

¹ *Report of Mr. Little*, endorsed by the Report of the Royal Commission on Agriculture, 1897, p. 37.

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was only paralleled by the growth of its livestock. The transportation of these in the shape of food-stuffs across great distances of the earth's surface was made possible by the utilisation of the refrigerator car from 1869 onwards. The result was that the total value of the product in the slaughtering and meat-packing industries of the United States rose from a figure of about £6 million in 1860 up to a figure of about £160 million in 1900. Owing to this new factor the three chief exports of the United States in 1900, in the order of value, were bread-stuffs, with wheat and maize predominating, raw cotton, for the South had recovered, and thirdly, the meat and dairy products in question here.

This new power of meat exportation had the result that meat, whether in the shape of beef or mutton or of pork, was imported into this country from all sources to the amount of 265,000 tons in 1875. The corresponding figure in 1895 was no less than 1,672,000 tons. In this huge importation into our market the United States was playing by far the leading part, in fact to the extent of about 80 per

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cent., and this ratio had been generally maintained during that period of time. "The United States has held the premier position through the last twenty years in the supply of wheat and meat, except mutton."¹

This further transformation had an effect upon our agriculture different from that in the case of wheat. For, if we refer to our British returns for 1875 and again for 1895, it is remarkable to notice that in the earlier year our production of meat was 265,000 tons, and that this figure remained perfectly stable at 261,000 tons for 1895. For we had held our own in virtue of the better quality of our produce, the price of which, relatively to the great fall of the inferior cuts, had maintained itself. Added to this, our population, which was importing meat at the rate of 22 lbs. per head in 1875, was now importing it at the rate of 40 lbs. per head in 1895.

It is of high importance that we should grasp, in its main economic bearings, the significance of the events thus described above. For now we stand in the presence of the most

¹ *Report of Royal Commission on Agriculture, 1897, p. 85.*

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striking and sensational instance, experienced up to that date, of economic impact exercised upon us by the United States.

It is to be observed, to start with, that the agencies whereby these exports had been mainly affected were the railway and the marine engine. But in both these departments it was Great Britain herself who had played an essential part. In some sort, then, we were the culprits ourselves.

The rapid strides in American railway construction had been made possible by British capital. After 1860 and during the Civil War we had very largely cleared out of American securities, though only to renew them rapidly on the termination of that conflict, so that by the year 1869 we must have owned about £250 million in the United States.¹ At each successive convulsion in American banking and currency we lightened our holdings and again renewed them, with the net result that in 1900 it was calculated by a reliable authority that, out of a total European investment of £620

¹ W. Z. Ripley in the *New York Journal of Commerce*, December 6, 1911.

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million in the United States, no less than £500
million was held by Great Britain.¹

These investments of ours consisted mainly of railway securities. To quote the same authority as the one first mentioned in the above paragraph, it seems that in 1890-96 the average foreign, *i.e.* mainly British, stockholding in the Illinois Central Railway was 65 per cent. of the whole; 75 per cent. in the Louisville and Nashville Railway; 52 per cent. in the Pennsylvania and Reading Railways, and so forth. Hence it follows that, serious indeed as was the agricultural upset in this country, it was by the agency of British capital that this revolution was very largely affected, and that British industry and British investors benefited greatly in one direction while a proportion of agricultural profits was being forfeited in another.

The agricultural expansion of the United States was further rendered possible by shipping, in which department Great Britain was now again predominant. It is important to recall

¹ Report of Special Commissioner of the Revenue, D. A. Wells, 1869.

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that, after the vast growth of American shipping during the Napoleonic wars, this lucrative business languished for twenty-five years, owing to the efforts presently renewed by Great Britain, more especially after 1830. The American tonnage in 1839 was substantially the same as it had been in 1815. Indeed, reckoned per head of the population, it had declined sensibly, being only 4.25 tons per head in 1839, against 13.43 tons per head in 1810.¹

After 1840, in the flux and reflux of things, American shipping pushed rapidly ahead. The shipbuilders of the United States turned out the splendid sailing clippers of those days, thus securing for their country the foremost place as ocean-carriers of the world. Meanwhile, the wars in which we were engaged in China, in the Crimea, and in India enormously stimulated this expansion of our rivals, and furnished them, as usual, with an excellent opportunity of superseding us once more. The immense immigration now proceeding into the United States added its profits of

¹ E. L. Bogart, *The Economic History of the United States*, p. 214.

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passenger fares, with the total result that the American tonnage engaged in foreign trade multiplied three times up to the unprecedented figure of close upon 2,500,000 tons in 1860. Including the ships engaged in domestic trade and in the fisheries, this was actually equal to that of Great Britain, and one-third of that of the whole world.

Once more, however, supremacy in this department was reasserted by Great Britain, as the wooden ship of America was superseded by the iron steamer. Our lost position on the ocean was restored to us. So sharp was the decline in American shipping that, whereas in 1807 no less than 92 per cent. of their foreign commerce had been carried in American bottoms, in 1900 this had fallen to the insignificant total of 8.2 per cent. The tonnage engaged by America in 1900 in foreign commerce was only a little over 800,000 tons, the lowest figure since 1840. Here, then, was a reverse of the picture of internal expansion. It was we ourselves, in virtue of the railroads built with our capital and of our new-found activities on the seas, who were making possible the

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affluence of food-stuffs and were drawing ample profits from that advantageous trade.

Another observation which it is pertinent to make is that, although our farming community suffered severely, the nation as a whole benefited by the fall in prices. Even in agriculture itself the 750,000 labourers still on the land, and forming nine-tenths of the interest concerned, found their lot improved. In a Report endorsed by the Royal Commission of 1897 we read the conclusion that "it is no exaggeration to say that in the last quarter of the century a great economic revolution, accomplished with little or no aid from legislation, has transferred to the labourers from one-third to one-half of the profits which the landowners and farmers previously got from the cultivation of the land." The percentage of unemployed in all industry dropped to between 2 and 3 per cent., and, between 1870 and the end of the century, the percentage of the paupers per thousand of the population was nearly halved. As regards the consumption of food resulting from the imports of foreign wheat, the Royal Commission of 1887 estimated that before 1873

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two-thirds of the wages of an agricultural labourer were expended in purchasing a sufficiency of bread alone for himself and his family, whereas at the end of the century less than one-third of the wages sufficed for that purpose.

It should be further noticed that after the year 1900 the pressure exercised upon our agriculture by the United States began to relax and relent. The percentage which agricultural products formed of the total exports of the United States had been about 80 per cent. in old days. This figure had dropped gradually, until in the year 1914 it was only 48 per cent. It does not appear that this decline in the ratio of agricultural exports was due to any decline in the entire output of these products. For, if we take the total output of the seven principal crops of the United States in 1900, this was 4,425 million bushels. In 1910 this had only slightly increased to 4,537 million bushels, and for 1914 it was much the same story. The reason why the exports were smaller was that, as the population grew gigantically, it naturally consumed more of the stationary output. Further, under the law

of diminishing returns, the price of cereals rose slowly and steadily, so that breathing space was afforded to our agriculturists even in this, the weakest, department of their economy. This reflection is confirmed by the conclusion of the Royal Commission on Agriculture of 1919, which observes that "the period of depression continued well into the present century, but about 1906, owing in the main to gradually improving prices, and to the new generation of farmers having adapted themselves to the changed conditions, a more favourable condition seemed to be opening out."¹

In reflecting upon this astonishing convulsion in the economic world, we cannot fail to be impressed primarily by the dislocation and loss that it produced in Great Britain. But we have to remember that it raised even more formidable, and perhaps more permanent, problems for the United States itself. Excellent as were the intentions of the Homestead Act passed by the United States Congress in 1862 for the purpose of opening up the Far West, it seemed impossible to avoid the occur-

¹ *Royal Commission on Agriculture, 1919, interim report, p. 1.*

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rence of great abuses. By 1900 it was estimated that huge estates had so multiplied that fifty-four companies and private persons owned more than 25,000,000 acres of Western land, an area greater than that of seven small Eastern States.¹

The Report of the Public Lands Commission, appointed a little later by President Roosevelt, exposed great evils. A similar Commission appointed in 1914 by President Wilson revealed the presence of many vast estates tilled by day labourers at low wages, of small farmers almost squeezed out by unduly high rents, of a great "absentee landlord" problem, and the farmers of the middling class forced to pay exorbitant rates of interest for advances. These were weighty evils arising from the resistless speed, the tidal race, of that development, and ever threatening to swamp the good intentions of the Legislature.

As for ourselves, the conclusion must be that, while considerable evils were inflicted upon us by this mighty agricultural impact from across the ocean, the good prevailed.

¹ Beard and Bagley, *A History of the American People*, 1924, p. 467.

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Nevertheless, this agricultural impact was soon to be superseded and overshadowed by something far more significant and fundamental. As the agricultural pressure diminished in intensity, its place began to be taken by another pressure, exercised upon our export trade by the exportation from America of manufactured goods. To this new evolution we must attend not less closely than to the one just considered. Clearly, it could not fail to be of high importance, in the measure that we lived to so considerable an extent upon our exports, which were composed, of course, principally of manufactured articles.

The great population, now engaged from the Civil War onwards in developing the agricultural resources of the United States, naturally required an ever-increasing volume of manufactured goods. Fortunately for them, their territory, though in 1860 its extractive industries were still practically undeveloped, contained in abundance the six chief articles needed for manufacturing—among minerals, coal, iron and copper, together with the wood, cotton and wool produced by agriculture.

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This mineral wealth, the basis of manufactures, was henceforth to be exploited to the full. In fact, up to the outbreak of the War of 1914 the United States was the largest producer in the world of all these articles, except the last. The annual output of the mines and quarries, as furnished by the United States Census, increased from £18 million in 1860 up to £200 million in 1900. By the date of the War it had swollen to the gigantic total of £400 million a year.

If, then, there was an ever-increasing agricultural population in urgent need of manufactures, and if there was an unparalleled wealth of raw materials to hand, and if, lastly, the most excellent workmen in Europe were constantly pouring into the United States, absolutely every factor was available which could possibly be required for manufacturing increase. Even in 1860 the United States had started in the industrial race: they were already estimated to be at that date fourth among the nations of the world in the total volume of their industrial output. By the year 1894 they had attained the first place in the world.

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Thereafter they were unquestionably the leading manufacturing nation of the world. They were producing nearly £400 million worth of manufactures in 1860. By 1914 they were producing nearly £5,000 million worth of goods a year.

During a considerable period of time after 1860 even this vast and regular increase in manufactures was absorbed in the country itself. Indeed, their output was far from being adequate to their requirements, with the result that a large volume of manufactured goods had to be imported regularly from Great Britain in chief. But gradually and steadily a new movement revealed itself. In 1900 the United States was importing a less value of manufactured goods than it was in 1860. In that year its consumption of foreign manufactures, as a percentage of its total production of manufactures, was merely the trifle of 1.54 per cent. In other words, by the year 1900 the nation had become practically self-sufficing in regard to manufactured goods.

So far the impact upon our own industry had been mainly of a negative order. In other

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words, America was becoming less and less a satisfactory market for our manufactures. But it had not, at least up to the last decade of the nineteenth century, commenced in any marked degree to compete with our manufactured exports in the neutral markets of the world. With the last decade of the nineteenth century, however, a revolution began. The percentage which agricultural products formed of the total American exports had been originally about 80 per cent. in 1860 and the succeeding decades. But in the last decade of the nineteenth century so marked a transformation began that in the year 1900 this ratio had dropped to 62 per cent.

In 1913 the total exports of the United States were £490 million. Of this total £210 million were manufactures, or 43 per cent. This leaves only some 50 per cent. for agricultural products, etc., plus 7 per cent. for miscellaneous articles.¹ We can thus measure at once the extent of this new pressure upon our industries.

This latter observation can be verified by a

¹ *Survey of Overseas Markets*, 1926, p. 670.

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reference to the valuable *Survey of Overseas Markets*, issued in 1926 by the Committee on Industry and Trade of Great Britain. In commenting on the essential nature of the manufactured exports of the United States, it is remarked that they are "largely competitive with British products," being mainly constituted by machinery providing "equipment for productive purposes." On the average of the years 1910 to 1914 about half the United States manufactured exports were finding entry in the North American and South American markets, regions which had been favourite fields of our own. After enumerating the characteristics of the American export trade, the Report continues: "It is significant that all of these goods are also important items in the export trade of the United Kingdom."²

It might be very naturally inferred that this American competition in exported goods, which began to be serious in the last decade of the nineteenth century and continued with increasing force up to the opening of the War, would have had a marked effect upon our prosperity.

¹ *Survey of Overseas Markets*, 1926, pp. 458-60.

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Indeed, as early as 1900 and 1901 there was quite a panic created by fears of "the American Invasion." Yet, in point of fact, this was not so : these anticipations were not realised. To illustrate this assertion, let us analyse our economic situation for the year 1913, the last completed year before the War. What do we find after nearly twenty years of active American competition ?

The answer to that question is that for 1913 our foreign trade was prosperous as it had never been before. A contemporary authority described its record at the time as being "one which leaves all preceding foreign trade figures far behind."¹ Our exports, the branch which particularly concerns us here, in that year were £525 million, constituting an increase of no less than 80 per cent. in ten years, an extraordinary achievement for so old-established a trade as our own. These exports, be it specially noticed, were buoyant in those very classes in which the United States had so long attempted to challenge us, *i.e.* in iron and steel manufactures, in cotton manufac-

¹ *The Economist*, January 10, 1914.

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tures, in machinery, in motors and electrical goods.

If we further compare the United States exports with our own, we find that in this year the United States was exporting 12·47 per cent. of the world's exports. The United Kingdom was exporting 13·02 per cent. of the world's exports.¹

A better test of our position at that date is to be found in our capital investment abroad. For, clearly, this arises from our surplus, our savings, after all domestic needs have been discharged. One of our leading statisticians has estimated that in 1860 our total foreign investments were about £750 million.² That total had probably expanded to about £1,500 million in the early years of the last decade of the nineteenth century.

Shortly after this date we were involved in a serious and costly war, which for some years largely neutralised our capacity for foreign investment. This South African War cost us

¹ *Survey of Overseas Markets*, Table I. p. 667.

² Dr. A. L. Bowley, *England's Foreign Trade in the Nineteenth Century*, p. 75.

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about £250 million, and inevitably absorbed the wealth which would otherwise have sought foreign investment. Nevertheless, in spite of this serious setback, our exported capital abroad assumed really immense proportions after our recovery in the year 1904. At any rate, writing in 1914, one of our chief authorities on this subject could declare, in his work on *The Export of Capital*, that "British foreign investments, which now amount to some £3,500 million, are likely in future years to increase rapidly beyond that figure." He added that "Great Britain has for some years past never invested less than £100 million a year in the Colonies and in foreign countries, and recently the amount has been in the neighbourhood of £200 million."¹

In order to verify this, we may turn to the volumes issued by the United States Monetary Commission of 1909 containing a Memorandum by Sir George Paish. This authority reckoned our foreign investments at that date at "about £3,000 million," to which we were adding

¹ Mr. C. K. Hobson, *The Export of Capital*, 1914, pp. 161-2.

“at the rate of up to £100 million a year.”¹ The two calculations thus appear to coincide generally, allowance being made for difference of date.

If we seek to establish these figures for ourselves, without reliance on the above-quoted authorities, it would seem, that for 1913 our export of capital can be calculated as follows. Great as were our exports in that year, our imports of merchandise and bullion were in excess of them by £158 million. So far, therefore, the balance was on the wrong side. But, outside these figures, our net income from shipping in that year was approximately £94 million, so immensely prosperous was our mercantile marine. Add to this a net income from our overseas investments, to be taken at £210 million. We earned additionally, by commissions and other services, enough to produce about £25 million and £10 million. Thus, from all these sources together we were earning no less than £339 million in that year. Accordingly, balancing our visible adverse

¹ *The Report of the United States Monetary Commission*, Miscellaneous, Vol. II. p. 175.

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trade balance against this other invisible income, we must have been investing at the rate of, say, £181 million for that year.

By such means as these we were building up, and had been building up for generations, the prosperity of the world. It is probable that about 60 per cent. of our huge foreign investments of £3,500 million had gone to construct the railways of the world, and the remaining 40 per cent. the supplies of food, of minerals, and of raw materials for the nations. Joseph Chamberlain once very aptly described us by saying that "the United Kingdom is a mere speck in the Northern Sea." This mere "speck," in face of the fiercest competition ever witnessed and of some of the most formidable tariffs yet constructed, was exhibiting an incomparable strength.

If, to proceed a step further, we contrast the international economic situation of the United States in 1913 with our own, it would seem that in potential international power they were much stronger than ourselves. For they had a little over double our population, and this population had thrice our wealth. Never-

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theless, in what may be termed actual international power we were relatively well placed.

For, whereas their investments in Great Britain were of quite a minor order, we, on our side, held some £800 million in the United States. This was a considerable proportion of the £1,400 million owned by outside powers in the United States.¹

In this same year 1913 the newly-elected President Woodrow Wilson furnished a remarkable survey of the American situation in his Inaugural Address.

After dwelling upon the magnificent energies of that great people, their limitless enterprise and their moral force, and after observing that "our life contains every great thing, and contains it in rich abundance," the President diverged into another vein. Grave evils, it seems, had corroded the fine gold of these achievements. There had been inexcusable waste: "We have squandered a great part of what we might have used." In her pride at her industrial victories, the nation had been

¹ *The Inter-Allied Debts*, Bankers' Trust Co. of New York, 1924, p. 307.

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harsh and hard: "We have not hitherto stopped thoughtfully enough to count the human cost, the cost of lives snuffed out, of energies overtaxed and broken." "The groans and agony of it all—the solemn and moving undertone of our life coming up out of the mines and factories," had not reached the Legislature. The Government of the United States had "too often been made use of for private and selfish purposes," in forgetfulness of the people. "There has been something crude and heartless and unfeeling in our haste to succeed and be great."

And then the new Rhadamanthus of Washington pushed his criticism further and probed at closer quarters still. "A tariff which cuts us off from our proper part in the commerce of the world, violates the just principles of taxation, and makes the Government a facile instrument in the hands of private interests; a banking and currency system based upon the necessity of a Government to sell its bonds fifty years ago; an industrial system which . . . exploits, without renewing or conserving, the natural resources of the country—waste places unre-

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claimed, forests untended and fast disappearing without plan or prospect of renewal, unregarded waste heaps at every mine." With what little conscience had the State behaved towards its own children, with what scanty regard for their health, their happiness, their social rights!

A Jefferson come to judgment! For it was Jefferson who, as his *Notes on Virginia* attest, was haunted by the vision of an America composed of a proletariat confronting a plutocracy. And presently, in 1916, in ominous confirmation of that vision, the United States Commission on Industrial Relations informed the public in its Report that "political freedom can only exist where there is industrial freedom. . . . There are now, in the body of our Republic, industrial communities which are virtually Principalities, oppressive to those dependent upon them for a livelihood, and a dreadful menace to the peace and welfare of the nation." A Jeffersonian echo indeed!

The mightiest people in the world listened with approbation, or without dissent, to this Papal allocution of its President, to this General Epistle to the Americans.

CHAPTER VII

THE IMPACT, 1914 TO 1923

THE last chapter dealt with the economic impact of America upon us in the industrial sphere up to the date of the War. Our examination indicated that Great Britain felt this impact very definitely in the departments of shipping, of agriculture and of manufacture. But, in shipping, Great Britain successfully reasserted herself after 1850; in agriculture the stress slackened about the last decade of the nineteenth century, when prices began to rise and when other nations, the Argentine, Australia, Russia and Canada, tended to supplant the United States in that respect. Lastly, although, with the end of the nineteenth century, the manufactured exports from the United States commenced actively to compete with our own exports in the neutral markets, we made triumphant headway in the face of that competition.

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It falls to this chapter to enter upon a more arduous and complex task, that of tracing the character and significance of the economic impact of the United States upon us from the opening of 1914 up to the end of the year 1923. That period of ten years is chosen, rather than the shorter period of the actual War itself, for reasons which perhaps may be considered adequate. The close of the War did not mark the close of a financial epoch. For the financial operations, immediately arising out of the War, continued to be conducted for several years after its conclusion, though they were fairly completed by the end of 1923. On the other hand, to embrace a longer than the ten-year period would be to over-weight and embarrass our inquiry.

When the War broke out, what was America to do? According to her own fixed and fundamental convictions, it was madness to take part in a mad European quarrel. The "Fathers," from the Sinai of the past, had pronounced against any European entanglements. On the Table of the Law this had been inscribed among the commandments.

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And the American Moses, in the person of President Woodrow Wilson, determined so, and so proclaimed it, straightway enjoining on all citizens of the Republic to "act and speak in the true spirit of neutrality, which is the spirit of impartiality and fairness and friendliness to all concerned."¹

How came it about then, that, in defiance of her most settled principles and of all the precepts of an unchallenged and almost Biblical tradition, America plunged into the War in April 1917?

It is indispensable to remember that America had become an independent nation precisely because of her determination to trade as she wished. In the Declaration of Independence itself we read their protest against the King of Great Britain's action in "cutting off our trade with the rest of the world." Again, the reason why America reluctantly fought against us in 1812 was in order to trade as she wished. Finally, the reason why she engaged even more reluctantly in the War of 1914 was still this identical resolution to trade as she wished.

¹ Proclamation of the President, August 18, 1914.

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For, as the War of 1914 unrolled itself before her unconcerned eyes, she was gradually forced to realise that, by warfare's logical and irresistible evolution, her export trade, the instrument of her economic impact, so long organised and so keenly cherished, was doomed to murder and sudden death. In a moment she was up in arms. On January 31, 1917, she was officially acquainted by the German Ambassador, in substance, that Germany would continue to sink her merchantmen and her merchandise. On April 6 she was at war.

At this point we enter the night of an economic Bedlam. Values melt: currencies vanish: trade turns a somersault: the entanglements of mutually borrowing and lending nations confound the understanding. Lest we lose our way in this chaos, we must adhere more closely than ever to our own special line of inquiry, to our own thread of thought to assist us through the maze. Otherwise, we may well be led astray by those sentiments experienced by the Roman army in visiting the scene "so full of ghastly sights and memories" of the disaster of Quintilius Varus

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in the Teutoburgian Wood, "when the legionaries felt moved to pity at the thought of fallen friends and kinsmen, of the calamities of war, and the chances of human life."¹

It is to be noticed that, as soon as war broke out in Europe, certain remarkable changes began to operate in the American exports to that continent. With any outbreak of hostilities the combatants taking part necessarily require more of some imports and less of others. They naturally want more food-stuffs and more manufactured articles, now that their own workmen and labourers are called off from the factories and from the fields. On the other hand, they will evidently need less in the way of raw materials used for manufacturing purposes, for the reason that, in the stress of the struggle, they have no longer the operatives available to work up these materials into their finished form. This particular stimulus to American manufacturing and agriculture, as opposed to any stimulus to their export of raw materials for manufacturing in Europe, is remarkably clear from the figures for 1914

¹ Tacitus, *Annals*, Book I. cap. 61.

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onwards, and has considerable significance, as we shall eventually see.

Another remarkable new feature of these figures is the direction in which the exports of America went. A great increase of them began to flow at once to the Allied Powers. A considerable increase also began to flow to the Netherlands and the Scandinavian nations. Simultaneously, a considerable decrease began to be registered as passing to the Central Powers. But the decrease to the Central Powers was decidedly more than the increase to the Netherlands and to Scandinavia. What was the significance of this new fact?

The increase to the Netherlands and Scandinavia meant, no doubt, that American goods were going in this round-about way to Germany. But the fact that the sum of the decrease of the direct exports of America to the Central Powers was less than the sum of the increase of the exports to Scandinavia and the Netherlands meant that America was gradually being cut off from the Central Powers. For, though the latter were obtaining their supplies from America in part directly as before

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and in part indirectly through Scandinavia and the Netherlands, the fact that the indirect increase was far from making good the direct decrease proves the case.

It followed from the facts above cited that the manufacturers and agriculturists of America quickly found that they were becoming immensely prosperous, but that, step by step, as their prosperity grew in volume it increased in risk. For their exported merchandise was ever liable to inspection and possible arrest by the mariners of Great Britain guarding the entrance of the Narrow Seas. So the tide of opinion began to run strongly against us, and in its wake the tone of the official dispatches from Washington became full of such sharp remonstrances as even to threaten us with the fatal and final menace of war with the United States.

In the midst of these most alarming symptoms, a fortunate reaction very gradually became manifest, and, our good star helping us, the current of economic events swung American feeling much more to our side. For, as the blockade grew stricter, the War lengthened

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out; and, as the War lengthened out, the exhaustion of the Western Allies grew more acute; and, as it grew more acute, so our appetite for the consumption of American goods grew more urgent and insatiable, thus reconciling to our cause the happy manufacturers and agriculturists, and, by consequence the statesmen also, of the Republic. In fact, the Western Allies, in thus providing in the nick of time an ever-expanding market for American exports, healed the animus against themselves which bade fair to be so formidable; while, conversely, the Central Powers, in threatening ever more flatly to destroy that traffic, pushed America of necessity into war on our side.

We have read of the historic anguish experienced in turn by Washington, by Jefferson, by Madison, and by Lincoln when confronted by the dread tormenting issue of peace or war. The four sleepless nights of President Woodrow Wilson were, therefore, quite in the classical tradition, as the dark hours showed him the gulf yawning inevitably at his feet. But what a wicked world it is that can drag into war

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the most peaceful of Presidents and of Peoples against their set volition ! They only wanted to be allowed to traffic quietly and, if possible, with both sides at once.

All this great outflow of exports from the United States is reflected in the statistical returns. During the three years from June 30, 1914, up to June 30, 1917, the excess of the merchandise exports from the United States over imports reached the fantastic surplus of £1,400 million. To illustrate what this meant by comparison with the past, it should be noticed that, whereas in the normal year ending June 30, 1914, the surplus of American exports over imports was £94 million, it had risen progressively to a surplus of no less than £726 million for the year ending June 30, 1917.

All this was the outward and visible sign of the borrowing by an exhausted and impoverished Europe from an ever more prosperous America. Add to this that, in the year ending June 30, 1919, this same surplus of exports over imports rose to the inconceivable height of £803 million. This was the peak year for

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the War and, indeed, for after years. For, from that date forward, there was a rapid decline to a surplus of only £75 million for the year 1923, when, making no allowance for the changes of price since pre-war days, the pre-war position was being resumed.

To look at the same matter in its purely financial aspect, we must next observe that these huge advances to the Allies, from the date at which the United States entered the War, took on the character of loans made by their Government to the Governments of the Allies. At this point some popular misapprehension sprang up. It seemed to be assumed, of course erroneously, that, as these advances were made as America's contribution to the common cause of the Allies, they were, therefore, not a charge to be repaid by the latter.

This misconception perhaps arose in part from the declaration in the President's Address of April 2, 1917, in which he announced that "we have no selfish ends to serve. We seek no indemnities for ourselves, no material compensation for the sacrifices we shall freely make." The public reading this declaration

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was disposed to conclude that the "sacrifices" referred to were the advances which, in lieu of putting an army into the field at present, the United States were now so generously prepared to make to the common cause, and that the words "no material compensation" referred to the repayment of interest and capital therefor.

This popular misunderstanding was somewhat strengthened by the emphasis officially laid upon the fact that these loans were made in temporary substitution of an army in the field. For instance, the Secretary of the Treasury, even so late as in his Report for 1919, pointed out at considerable length that, "in the beginning, the principal assistance of America was necessarily through foreign loans, and it was then that these advances proved so very potent in contributing to the final victory. . . . The service of these loans in assisting to hold the battle-fronts of Europe until the might of our heroic army could be felt effectively, made possible, beyond the shadow of a doubt, the ending of the War in the fall of 1918."

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If, then, the position was really as stated by the Secretary of the United States Treasury, this seemed rather to confirm the popular conception that it was scarcely fair that the United States, in deciding to furnish money in default of furnishing armies at present, should charge the other belligerents for so doing. For why should the United States charge her Allies for her fighting of the War with dollars, when her Allies were charging her nothing for their fighting of the War with deaths? However, the bond was explicit, the compact certain. Beyond all technical doubt these were loans and not advances, and they had to be repaid some time and somehow in cash and with interest. Thus, a terrible rod in pickle, capable of producing an economic impact of no mean severity, was in store for our exhausted taxpayers.

It is, therefore, indispensable that we should now look at the whole matter of our changed economic relationship with the United States as it stood at the close of 1923, a date at which the economic forces above referred to had clearly declared themselves in their settled character.

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At that date the total of the obligations of all the foreign Governments concerned held by the United States Treasury amounted to the sum of £2,360 million, *i.e.* principal plus interest accrued. These figures comprised what had been advanced under the Liberty Loan Acts; as also on account of sales of surplus war material, on account of relief supplies furnished to Europe, and on account of special sales of flour made to Austria, Armenia and Poland. Our concern, however, is not with the nineteen nations to whom these loans had been vouchsafed, but with Great Britain. Our share in the above amounted to £920 million; while France and Italy were the other two really important debtors.

So much for the result of the War as between the American and the British Governments. But what of the infinitely more complex, and perhaps almost insoluble, question as to the corresponding state of things between private firms and companies and persons in the two countries? Evidently, in order to gain a clear conception of the novel impact which the United States was now exercising upon us,

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not only the balance of transactions on public account but also the balance of transactions on private account has to be estimated.

“According to the most careful estimates,”¹ as matters stood in 1913, foreign lenders held not less than £1,400 million of American securities, of which we held about £800 million. As against this, Americans held at that date nearly £500 million investments abroad, of which very little was in England. Hence in 1913, on balance, the United States was most probably a debtor nation on private account all round of nearly £1,000 million.

During the next ten years, up to the end of 1923, the situation changed remarkably. The money invested in America by foreign lenders is now reduced from £1,400 million to £800 million. Against these claims upon her she has now investments abroad of about £1,500 million. In other words, her net investments are about £700 million. “We are a net creditor nation of \$3,500 million (£700 million), thus reversing the pre-war status.”²

¹ *The Inter-Allied Debts*, Bankers' Trust Company of New York, 1924, p. 312.

² *Ibid.*

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Thus, whereas the citizens of the United States owed abroad in 1913 the net sum of, say, £1,000 million, ten years later they are owed abroad a net sum of £700 million. But this is not all. As we have seen, the United States Government at the end of 1923 was owed abroad a sum of £2,360 million.

Hence, at the end of 1923, the United States was a creditor nation of, say, £3,000 million, though receiving little by way of interest on the major portion of it.

Included in the above general figures are those of our own economic relationship with America. In 1913 the United States probably owed us on balance about £800 million. In 1923, on Government account and private account taken together, these figures were probably reversed on balance. Without emphasising these figures too much—for there are no data for close calculation—we may be sure that the relative position had changed to our detriment.

From this starting-point let us go a step forward, and inquire into the most important issue inevitably arising out of it. If we were

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now thus in debt to the United States, and if we had now agreed in June 1923 on annual repayments, then, presumably, we could best discharge that debt by selling goods in the American market. Of course it could be done otherwise by triangular, roundabout, transactions, but clearly the ability to sell our goods freely and directly in that market would be the most satisfactory way.

The question then immediately arises as to what, in 1923, was Great Britain's capacity to sell her goods in America. To this we must give the closest attention and the clearest answer possible. It is a subject very cogent to our inquiries; for the economic impact of America upon us could not fail to be accentuated if, at one and the same time, she could exact our money and also make it difficult for us to pay.

In the years prior to the War, one-half of the average imports into America had consisted of goods from Europe, the exact figure for the five years, 1910-14, being 49.5 per cent. But the War, as indicated in a previous paragraph, had markedly stimulated the manufacturing energies of America, with the result

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that, naturally enough, she no longer needed the products of Europe, mainly consisting of manufactured articles, in the same ratio as before. This change is accurately reflected in the trade figures: in 1923 the percentage of 49·5 per cent. from Europe has fallen immensely to 30·5 per cent. For Canada and Asia had relatively edged out Europe. What was true of Europe as a whole was true also of Great Britain in particular. For our special share of the total imports into the United States had shrunk from 16·5 per cent. on the average of 1910-14 down to so small a figure as 10·7 per cent. in 1923. All this appears from the statistical returns of the United States.

If, however, we turn to the corresponding statistics in the United Kingdom publications, the same figures present themselves in a somewhat more agreeable guise. These latter returns enable us to discern something novel in regard to these same imports of ours into America. In the 1910-14 average, half of these were re-exports of foreign or colonial produce, while the other half of them were our own domestic produce and manufactures.

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But in 1923 much the greater portion of them were now our own domestic produce and manufactures, for the re-export trade had dropped away. Owing to this cause and owing also to the large absolute increase in the total imports into America, the actual imports of our own goods into America were now in 1923 nearly double in value of what they were in 1910-14.

But this does not settle the matter quite in this troublesome post-war world. For between 1914 and 1923 all values had altered. After making this final adjustment, it would seem that the real volume of the imports of our own domestic goods and manufactures into the United States had increased by 10 per cent. However, for our present purpose, the value of the goods is of more importance than the volume of them, since it is the value that matters when the discharge of debt is concerned. This actual value, then, not counting the re-exports, was very nearly £60 million.

It must be surely considered an evidence of great industrial strength that Great Britain was able to maintain her exports to the United States on this important scale even during the

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year 1923. It must be remembered that we were in the throes of that formidable economic convulsion which had shaken us for three years since the middle of 1920. At that date prices had fallen catastrophically and unemployment had correspondingly bounded up. The whole basis of industrial life had seemed to feel an earthquake, and these terrible perturbations had by no means lost their effect in 1923.

It may, perhaps, be argued that the low level of the London-New York exchange was affording an artificial stimulus at this time to our exports. But this view can hardly be sustained. For though the £ was, no doubt, a considerable way below the \$ parity in 1923, its average course since 1920 had been a gradual rise towards parity. The old par of exchange being \$4.86½ to the £, the latter was worth, taking the successive averages of the years 1920 to 1923, \$3.66, \$3.85, \$4.43 and \$4.57. Thus, so far as a falling exchange is held to stimulate exports, the course of it had been telling against our exports rather than in their favour.

There is yet another most important con-

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sideration which may serve to increase our regard for our exporters in the year under analysis. The terrible Fordney McCumber tariff had been enacted in America in the year 1922. This measure provided for additions to, and increases in, the duties, in view of the depressed state of some of the main branches of industry in America, now that the reaction had set in after the War and that Europe was commencing to reconstruct herself and to develop her own industries once more. But its chief provisions, from the point of view of the United Kingdom trade, were those introducing heavy increases in the rates on the very classes of manufactured goods which the United Kingdom had been in the habit of supplying to the United States in appreciable quantities. Among these items, textiles, china-ware, glass-ware, high-speed steel, cutlery and jewellery suffered particularly. "It is certain that, in staple lines of manufactures in which quantity and low price are important factors, the tariff has rendered competition from the United Kingdom practically impossible."¹

¹ *Survey of Overseas Markets*, 1926, p. 454-5.

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It had been the main purpose of the policy of the United States in enacting the Fordney McCumber tariff to restrict the importation of fully manufactured articles. These, *i.e.* manufactures ready for consumption, had accordingly fallen in 1923 to only 20·2 per cent. of the total imports. Yet, in spite of all the clauses of this tariff, and in spite of all our domestic upsets, and, finally, in spite of the fact that “in almost every class of imported manufactures into America, the United Kingdom has to face competition from the leading European countries,”¹ our wonderful British manufacturers, our unconquerable British merchants, were able in this year 1923, thanks to the excellence of their products, and to their mastery of the technique of trade, to squeeze all sorts and kinds of specialities—choice cottons, woollens and laces and embroideries, artistic pottery and glass-ware, made-up leathers and what not—to the huge amount of almost £60 million of their own goods and of nearly £16 million of entrepôt goods, a total of £76 million, over the hostile barbed-wire en-

¹ *Survey of Overseas Markets*, p. 453.

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tanglements and into the grudging American market.

But the above-mentioned difficulties, incidental to our new obligations to the United States, were being partly increased in another direction. To appreciate this, let us examine the figures of the exports from America.

According to the calculation of the Bureau of Foreign and Domestic Commerce, America nowadays exports only about 11 per cent. of her total production of manufactured goods. In 1923 the entire American exports reached a total of £818 million, of which 45 per cent. were manufactures, or about £370 million.¹ Unfortunately for ourselves, these latter frequently consist of articles of much the same nature as our own exports, and, therefore, are sometimes competitive with British products.

Besides this, they had been going more and more, as compared with pre-War days, to our old markets in Asia and Oceania. "The importance of Canada and other British Dominions in the United States export trade is very marked. In these markets the United States

¹ *Survey of Overseas Markets*, p. 370.

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is a formidable competitor in practically all classes of goods which are produced in the United Kingdom.”¹ So, first, the United States has only a trifling part of her total manufactures to export, and can, therefore, afford to take a competitive price for them. Next, the exports, though small in comparison with her total output, are huge in amount and compete sometimes with our own goods. Lastly, they penetrate in some cases into markets where we once held pre-eminence, such as those of Oceania and Asia.

It is time to summarise the conclusions arising out of the above examination of the contrast which 1923 presented with 1913. This can be done in a few sentences. In 1923 we had become net debtors to the United States in view of the huge amount of the debt incurred by us in the War. We could best discharge that debt by exports. But by her stringent tariff and by her active competition with our goods in the neutral markets, America was rendering that discharge of our obligations as hard as possible. Such, then,

¹ *Survey of Overseas Markets*, p. 461.

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was the formidable economic impact of America produced by the War.

We have analysed the economic impact of America, so far, in its statistical aspect. But it must also be observed that this extraordinary evolution in the relative economies of the two peoples was powerfully moulded and immensely hastened by a single individual. Behind the figures was a human personality in action. This personality was that of President Woodrow Wilson.

It would be far beyond our present purpose to review the general political career of President Wilson. As for his personal characteristics, as they appeared at their weakest point in the crucial hours of the Peace Conference at Paris, they stand engraved once for all for us in *The Economic Consequences of the Peace*, etched there unforgettably by a master hand.

Nevertheless, it is relevant to our purpose to estimate the contribution made by President Wilson to the economic impact of America, all the more because the period from the date of his assumption of the Presidential Chair in 1913 up to the date of his death in February 1924

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covers exactly the period under review in this chapter.

It has already been sufficiently argued that, in 1913, the United States was backward and out-of-date in the technical organisation of finance, whether regarded from the currency, the banking, or the budgetary, standpoint. But the resolution and genius of President Wilson soon procured the enactment of the Federal Reserve Act, which purported to reorganise the banking and monetary systems of the United States. It was also under his direct auspices that measures were taken for reconstituting taxation on more modern lines. It is true that it was under the Republicans that Congress passed the Sixteenth Amendment to the Constitution, enabling an income tax to be instituted. But President Wilson, acting on this Amendment, secured the passage of the Bill itself.

The importance and the fruitfulness of the work done in this direction may be judged from the fact that, during the War, the income tax, together with the excess profits tax, produced 66·55 per cent. of the total revenue

collected by the Government. Thus, on the technical side of finance, President Wilson was the statesman who armed his country for the coming conflict, and who, by his energy and foresight, made possible her financial mobilisation.

In fact, when we are tempted to smile at some of his professorial foibles, we should remember in justice to him that, in sheer technical achievement, his Government was as memorable and as practical as any which preceded or has succeeded it.

Besides all these important measures, he forced through Congress, by incredible skill and resolution, the Underwood-Simmons Tariff Act, which, in itself, but for the War and for the subsequent reversal of his policy in 1922, would have marked a new and happier era in the relations of the United States with the outside world. "The Underwood-Simmons Act marked a revolution in our tariff policy. It was comparable in a way to the repeal of the Corn Laws in 1846."¹

¹ *The United States of America*, by Professor Muzzey, Professor of History, Columbia University, Vol. II. p. 544.

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And, finally, in addition to all these achievements, President Wilson fought privilege entrenched in high places, taking as his starting-point "that useless piece of legislation," as a Judge of the Supreme Court had termed the Sherman Anti-Trust Act of 1890. In a former year, in his capacity of Governor of New Jersey, he had succeeded in enacting his famous "Seven Sisters," that group of State laws for the control of the "bosses" and corporations of New Jersey. Now he introduced the "Five Brothers" with the same intent. Amalgamated finally into two statutes, they took shape as the Federal Trade Commission Act, or "Ovington" Act, and also as the "Clayton" Act.

Thus was it that in after years, in the course of his famous Second Inaugural Address of March 5, 1917, President Wilson could claim, with a swift backward glance at his own administration, that "perhaps no equal period in our history has been so fruitful in important reforms in our economic and industrial life."

America entered the War, and, from the date of that decision, Pactolus itself poured its

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gold at her feet. She reaped at once a truly royal harvest, lending all round the world to Governments on a sufficient basis of interest. "America the Golden, with milk and honey blest!" For the conflict found her at the very hour when she was ripe and ready, as she had never been before, for the external mobilisation of her internal wealth.

How, then, was it that this very war policy of President Wilson, so fruitful of golden results for his country, eventually destroyed him? How are we to explain so amazing and paradoxical an issue to a career so strewn with laurels? How are we to resolve the riddle of the tragic fall of the American *Œdipus*?

If we study with close and critical attention the majestic war utterances of President Wilson, which so riveted the attention of the world, we shall remark that they express not one, but two, ends, not perhaps mutually inconsistent but, at any rate, markedly unequal in scope and significance.

The United States, as President Wilson of all men was well aware, had entered the War because of its resolution to have trade freedom

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without any restrictions imposed by any belligerent. In strict accordance with this essential aim, the President particularly emphasised the necessity of "free access to the open path of the world's commerce—the path of the sea must, alike in law and in fact, be free." He pleaded with unerring eloquence for the "unthreatened intercourse of nations."¹ All this was one part of the burden of those grand discourses, and, assuredly, there was not a man in America prepared to dissent from the execution of such a policy.

But, unhappily for his own fortunes, President Wilson also insisted from the beginning upon the adoption of a much more adventurous and ambitious policy than this. "Peace must be followed by a definite Concert of the Powers. . . . It is inconceivable that the people of the United States should play no part in that great enterprise." "No Covenant of co-operative peace that does not include the people of the New World can suffice to keep the future safe against war. . . . It must be a peace made secure by the organised major force

¹ *Address to the United States Senate, January 22, 1917.*

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of mankind.” “In holding out the expectation that the people and government of the United States will join the other civilised nations of the world in guaranteeing the permanence of peace upon such terms as I have named, I speak with a greater boldness and confidence,” etc., etc.¹ “We are provincials no longer. The tragical events of thirteen months of mortal turmoil through which we have just passed have made us citizens of the world. There can be no turning back.”²

All this may have been right or wrong, but it was infinitely beyond the purpose of those whom he represented, and outside the platform upon which he had stood when he had been returned to power in 1916.

His political doom was sealed when he brought home from Paris the Treaty and the Covenant of the League of Nations. To American eyes the latter was the illusory mask which concealed the reality of reaction embodied in the former. To American eyes the Covenant was the bait set to lure the simple-

¹ *Address to the United States Senate*, January 22, 1917.

² *Second Inaugural Address*, March 5, 1917.

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tons of European Liberalism into the trap of
the Treaty.

Not all the eloquence of President Wilson could persuade his fellow-countrymen to accept the impossible Article 10, and the equally undesirable Article 16, of the Covenant. Article 10 engaged America, together with the rest of the nations, to "preserve as against external aggression the territorial integrity and existing political independence of all Members of the League." That implied eternal preparedness for inevitable warfare in the Old World. Article 16 further engaged America, with the rest of the nations, to submit any recalcitrant Member of the League to "the severance of all trade and financial relations." This sounded specious, but it implied embargoes upon commerce, the very thing which America had gone to war in 1812 and in 1914 to prevent.

If Europe was so loud in wanting to "end war," there was a much simpler way to be found than by going to Geneva. Let the European nations lay down their arms and "cut the cackle" about the Covenant.

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Accordingly, when President Wilson died in February 1924, his country had long ago repudiated his statesmanship and was disposed to cancel his fame. It was from beneath the shadow of Table Mountain in far-off Africa that the winged words flew, to remind men what President Wilson had been in the past, and to augur of what he may still become in the future. A stranger, a warrior, a statesman, a philosopher, spoke. The eulogy pronounced by General Smuts upon the fallen President was one which that statesman himself would assuredly have desired for his epitaph. "It was not Wilson who failed, it was the human spirit that failed, at Paris. The Covenant is Wilson's souvenir to the future of the world. America will rank him with Washington and Lincoln, and his fame will have a more universal significance than theirs."

But, seated serene between her oceans, America agreed not. President Wilson had led her by limited warfare to unlimited wealth. But when this agent of her unlimited fortunes sought to entangle her in an investment in Europe fraught with unlimited liabilities, she

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put down her foot, refused to underwrite Geneva, and transferred her custom to brokers of a less adventurous mind.

Instead of setting his hand to the Treaty and the Covenant, Uncle Sam asked for the list of the loans which he had made to the Governments of Europe. Wise man, not to squander those illimitable profits which he had made in Mars, Mammon & Co. !

CHAPTER VIII

THE IMPACT, 1924 TO 1928

IN the last chapter the character of the economic impact of America was traced from the year 1913 up to the end of 1923. It was shown that in that period the United States, which in 1913 had been our debtor on a vast scale, was transformed into our creditor. This debt had to be discharged by us, mainly, in the form of exports. Yet this very process of discharge was rendered difficult for us by the United States herself, whose exports were now very actively competing with our own in the neutral markets, and who, in 1922, had constructed a forbidding tariff. It was shown, however, that, in spite of the serious difficulties of this new situation, we held out.

It is the purpose of this chapter to continue the examination in question from the opening

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of 1924 up to our own hour. During this latter time the economic impact of America suddenly assumed another shape. Or, rather, a new factor, additional to those already enumerated, stepped sensationally before the footlights on the economic stage. This new factor can be summarised in the single syllable—gold.

At the opening of the eighteenth century our currency policy had been in confusion for several hundred years. The mediæval statesmen, beginning with Edward III, had pursued the phantom of a double standard, and the financiers of Charles II had endorsed this impracticable policy by passing the Statute of 1666.¹

Accordingly, the bewildered public of William III and of Anne could ask themselves: Are we on a bimetallic standard? Yes, evidently: the law of 1666 authorises the unlimited coinage of gold as well as silver. Or are we on a gold standard? There is ground for thinking so, since the business community favours gold at the expense of

¹ 18 Charles II. chap. 5.

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silver as the medium of its operations, and has, in fact, procured the coinage of golden guineas since 1663 under the regulations of the Mint Indenture of 1670. Or are we on a silver standard? Indubitably we are.¹ As the Commissioners of Trade, John Locke himself among them, have so well pointed out in their 1698 Report, "It being impossible that more than one metal should be the true measure of commerce, and the world by common consent and convenience having settled that measure as silver . . . the value of gold will always be changeable, and the fixing of its value will be always prejudicial to the country which does so." So silver is the standard!

A strange chaos, in which the legal, the commercial, and the official communities were in conflict as to what currency standard they were on.

In the circumstances, there was extreme confusion on this fundamental matter, although Copernicus, the eminent astronomer, had long ago clearly elucidated the monetary question

¹ Cf. Adam Smith, *Wealth of Nations*, 9th edition, Book I. p. 59.

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in his treatise of 1526, entitled *Ratio Monetae Cudendæ*. But, in default of Copernicus, there was another astronomer to hand of equal, if not superior, eminence in the person of Sir Isaac Newton, Master of the Mint. He was accordingly called in to prescribe in 1717, and his prescription was adopted. This prescription of Sir Isaac Newton was not well adapted to the situation.

Sir Isaac recommended that the ratio between the golden guinea and the silver shilling be fixed at 21*s.* to the guinea. This was equivalent to a ratio of 15·2 to 1, *i.e.* 15·2 lbs. of silver were rated as equal in value to 1 lb. of gold. But this Mint price, to use the technical term, was somewhat divergent from the market price, in the sense of undervaluing silver to a slight degree. Consequently, the public declined to bring silver to a Mint which gave a less price for it than could be obtained in the market. Hence the chief purpose of securing a silver coinage, for which Sir Isaac Newton's services had been requisitioned by the Government, was not attained, with immense inconvenience for the public.

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The other omission of Sir Isaac Newton was that he took no measure of precaution against what would assuredly happen whenever the market price should depart decisively, either way, from the Mint price, a danger, which Copernicus had clearly foreseen.

Now, as the calculations of Soetbeer have demonstrated, in 1771-78 the market ratio was so low as 14.64 to 1. This means that the market price had moved steadily away from the Mint price established by Newton. But there was nothing in his plan to adjust the difficulty; and, accordingly, silver was less likely than ever to be attracted to the Mint. As the century ended, to make matters even worse, the market price began gradually to move the other way. The policy of Newton had, in substance, prevented a silver coinage, but now his ratio of 15.2 to 1, which was still adhered to by the Government, produced the converse trouble. Between 1797 and 1810 the market ratio went as high as 15.61 to 1. In other terms it was now gold which was undervalued at the Newton ratio. Inevitably we were now in danger of losing our gold.

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So, two statutes were enacted for closing the Mint to the free coinage of silver.¹

Let us verify all this from the Mint Returns. From 1715 to 1815 there were three big coinages of silver on special account, totalling about £368,000. Yet, even including these exceptional amounts, the total silver coined during that hundred years was no more than £598,000. In the same period the gold coined was no less than £87 million. We had been "muddling through" somehow towards the gold standard.

We were, however, not through yet. There remained the problem which had baffled the mediæval statesmen, and, as we have seen, Sir Isaac Newton himself. How marry the Mint, to the market, price? For the former must be fixed, and the latter must fluctuate in the very nature and essence of things; and, if so, then, whichever of the metals was undervalued in the Mint price must assuredly tend to disappear from circulation.

A currency expert at last arose to solve the apparently insoluble problem. This Copernicus

¹ 38 George III. Cap. 59, continued by 38 George III. Cap. 75.

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of the Currency was Charles Jenkinson, first Earl of Liverpool, who, in his *Treatise on the Coins of the Realm*, published in 1805, furnished the proper solution.¹ His son, Robert Banks Jenkinson, who was Prime Minister for fifteen years, from 1812 to 1827, under the name of the second Lord Liverpool, grasped the importance of the question. He had been, like Newton himself, Master of the Mint. Under his auspices silver was made a token by the Act of 1816. This excellent solution, which consisted in reducing the bullion in the shilling by about 6 per cent., in closing the Mint to its free coinage, and in limiting its legal tender to 40s., reconciled the adoption of gold as the sole standard of value, with the free use of as much silver coin as the public needed. The problem which had escaped Newton, and which had troubled the economics of the world since the Dark Ages, had been solved at last.

What an inequitable world, which, in the City of London, has raised so noble a monument to Sir Robert Peel as the organiser of

¹ *A Treatise on the Coins of the Realm*, by Charles Jenkinson, Earl of Liverpool, p. 155.

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our credit, but has ignored the indispensable ingenuity of the Jenkinsons !

But though gold was proclaimed sovereign, where was it to come from ? Not much of it was mined in those days : in the first fifty years of the nineteenth century only about £5 million a year was produced on an average in the world. It is at this point that America enters upon our scene.

As already pointed out,¹ the United States in 1792, indulging in the old error, had fixed their ratio at 15 to 1, on the advice of Alexander Hamilton. This was to undervalue gold. Gold accordingly poured out of circulation, considerably to our advantage, a movement all the more helpful as we had exported a good deal of gold to America to pay for our army in the war. It was only in 1834 that Congress adopted the new ratio of 16 to 1, in which gold was now overvalued. But although gold could now return to the United States, so far as the ratio was concerned, another factor, that of the imperfections of the American banking system, obviated any difficulty which

¹ P. 18.

we might otherwise have experienced as to gold.

In his speech introducing his proposals for the Bank Charter Act of 1844, Sir Robert Peel entered into the United States situation in its bearing upon ourselves. His argument was that their monetary system was being invalidated by their banking system. "What has been the result of unlimited competition, in banking, in the United States? There was every precaution taken against insolvency, excellent regulations for the publication and audit of accounts, immediate convertibility of paper into gold. If the principle of unlimited competition, controlled by such checks, be safe, why has it utterly failed in the United States? But when the privilege of the Central Bank ceased, when the principle of free competition was left unchecked, there came, notwithstanding professed convertibility, immoderate issues of paper, extravagant speculation, and—the natural consequence—suspension of cash payments and complete insolvency."¹

Why then, contrariwise, would England,

¹ *Speeches of Sir Robert Peel*, 1853, Vol. IV. pp. 358-9.

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granted a duly organised Central Bank, such as the Bank of England, be able to retain her gold? "It is because gold is an article of commerce, because there are no restrictions upon its export or its import, that you can at all times depend upon such a supply of gold for the purpose of coin as may be sufficient for the wants of this country. The precious metals are distributed among the various countries of the world in proportion to their respective necessities, by laws of certain, though not very obvious, operation which, without our interference, will allot to our share all that we require. Some entertain the apprehension that we may be drained of all our gold in consequence of a demand for gold from foreign countries, either for the payment of their armies or in consequence of sudden and unforeseen demands for foreign corn for our own internal consumption. It is supposed that gold, being an article in universal demand and having at all times and in all places an ascertained value, is more subject to exportation than anything else.

"But the export of gold, whether coin or

bullion, is governed by precisely the same laws by which the export of any other article is governed. Gold will not leave this country unless gold be dearer in some other country than it is in this. It will not leave this country merely because it is gold, nor while there is any article of our produce or manufacture which can be exported in exchange for foreign produce with a more profitable return. If gold coin be, in any country, the common medium of exchange; or if the promissory notes, which perform in part the function of gold coin, are at all times and in all circumstances of equal value with gold and are instantly convertible into gold, there are causes in operation which, without any interference on our part, will confine, within known and just limits, the extent to which gold can be exported. There may, no doubt, be temporary pressure from the export of gold, even when it is confined within those limits, but none for which you may not provide, none to which you would not be subject, in a higher degree probably, were any other standard of value adopted in preference to

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gold.”¹ Such, then, is the physical philosophy
of gold.

We must observe, however, that, in expounding our situation, Sir Robert Peel omitted to mention two additional causes, the one of temporary and the other of commanding, importance, regulating our position with regard to gold. The first of these circumstances was the monetary policy of France.

By a curious coincidence, France fixed her ratio in 1726 at about the same time as we had done so in 1717. But, instead of the Newton ratio of 15·2 to 1, France adopted a ratio of 14·5 to 1. In this case it was gold which was undervalued and tended to disappear from circulation, considerably to our advantage. This ratio was, indeed, changed to 15·5 by Calonne in 1785. But, not to embark upon the currency history of France, suffice it that at this period, 1841-50, the market ratio was, on the average, 15·83, while the French ratio was still 15·5 to 1. This seriously prejudiced the capacity of France to take gold or to keep it in circulation, thus further facilitating our own situation.

¹ *Speeches of Sir Robert Peel*, 1853, Vol. IV. pp. 353-4.

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Of much more permanent importance was the other factor not referred to by Sir Robert Peel. In Chapter V a few remarks were offered as to the date at which our investments in America had begun on an organised scale. To look at the same facts from our present monetary angle, this investment policy of Great Britain was already securing and consolidating our position as regards gold. For a full thirty years after the Napoleonic wars, England alone was able to supply foreign capital freely to other countries. This ascendancy enabled us to draw gold in repayment whence we wished and whenever we wished.

Besides this, the monetary sceptre of the world had recently been relinquished by Holland in our favour. Holland had enjoyed that position since the latter part of the sixteenth century, and the Tudor princes were often in that market. Our Committee of 1669 on the Decay of Trade—for British trade is always decaying—was informed that the rebuilding of London itself, after the Great Fire of 1666, had been financed in Holland. On the issue of a hazardous prospectus, that

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of the Bank of England, "a large part of the capital of the Bank of England was subscribed by the Dutch."¹ In 1776 some three-sevenths of our National Debt is estimated to have been held in Holland.² Nervous people could go about in the City saying that the Dutch "economic impact" was sure to "do us in."

But the fall of the Dutch Republic in 1795 before the arms of France, and the failure of the Bank of Amsterdam, which from 1609 onwards had led the banking world, enabled London to take that precedence which was organised in 1819 and 1844 by Sir Robert Peel. In the City, the House of Baring, already long established, could extend a smiling welcome to the Goscens, the Schrodgers, the Hambros, who arrived post haste.

Altogether, then, the gold situation of Great Britain was dominated up to 1850 by the following facts. (a) The policy of Sir Isaac Newton, who had recommended such a ratio as indirectly to procure us gold; (b) the policy of France, which, conversely, in 1726, fixed

¹ *The Export of Capital*, C. K. Hobson, p. 85.

² Cf. Calculation in the *Economist*, February 15, 1913.

such a ratio as to divert gold towards us; (c) the policy of the United States, which in 1792 adopted such a ratio as, similarly, to provide us with gold; (d) the fall of Holland, which for two centuries had held the world's financial sceptre, and the arrival, by consequence, in England of the great Accepting Houses; (e) the Jenkinson, or Liverpool, policy of 1816, which married gold to silver in our monetary system; (f) our foreign investments, which, in the generation after Waterloo, enabled us to command gold; (g) the policy of the United States, which, in twice rejecting a Central Bank, caused monetary confusion and the deflection of gold towards us; (h) finally, the policy of Sir Robert Peel, who, by the statutes of 1819 and 1844, organised the credit of Great Britain on the exact lines which endure to-day.

Upon all this golden honeymoon enjoyed by Great Britain the United States presently began to look with unfavouring eyes. As time proceeded, a series of mighty economic events arose to depress the price of silver, the very last thing which the United States desired, or

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looked for, in the monetary order. The flight from silver was led, first and foremost, by Great Britain. The reason why the United States disliked it so particularly was that from 1862 onwards her output of the white metal had begun to be important,¹ and also because, from 1878 onwards, she had engaged herself by statute to purchase huge amounts of silver.

What made matters worse was that France was similarly engaged in ridding herself of her silver. The returns of the French Mint show us that from 1820 to 1850 she coined £127 million of silver. But from 1850 to 1866 she only coined £1,316,000 of silver. France was, in fact, selling her silver on an immense scale. In 1876 the reserve of the Bank of France, which in 1860 had been mainly of silver, now contained £50 million of gold. Thus France, too, was betraying the cause of silver.

The next blow—Germany demonetised her silver under the guidance of Prince Bismarck

¹ Reports of United States Director of the Mint. Silver output of U.S.A.: £30,000 in 1860; £3,200,000 in 1870; £7,150,000 in 1873.

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in 1873, and from that date onwards was a seller of silver in increasing amounts. By yet another stroke of misfortune, the Latin Union, a monetary union consisting of France, Italy, Belgium, Switzerland and Greece, which had been formed in 1865 for the joint coinage of gold and silver, began to break down. Dismayed at the prospects of silver, the States of the Latin Union undertook, by the Treaty of November 5, 1875, not to coin any more five-franc pieces. The flight from silver had become a rout!

It was in these circumstances that the United States came out into the arena against the policy of Great Britain. In 1878 she invited the European Governments to appoint a Monetary Conference, with a view to the resumption of the coinage of silver. It failed. Another Conference was held in Paris in 1881. That failed too. A third one was summoned in 1892, still on the initiative of the United States, and was held at Brussels.

The point of view of the United States can be judged from the terms of her invitation to the 1892 Conference. "The Government of

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the United States expressed a wish to Her Majesty's Government that a ratio be established by the leading nations for the coinage of silver at their several Mints. It was intimated in reply that Her Majesty's Government would not be able to accept an invitation couched in such terms. The Government of the United States have now proposed a Conference of the Powers for the purpose of considering what measures, if any, can be taken to increase the silver in the currency system of nations. Her Majesty's Government have accepted the invitation conveyed in these terms."¹ Behind the smooth official language crops up the opposition of views.

Then, suddenly, in 1893 two epoch-making events happened. Two thunderbolts fell. Two tremendous blows were struck at silver. The first was when, on June 26, 1893, the Indian Mints were closed against the free coinage of silver. The next was on November 1, 1893, when the United States threw in her hand. Finally, abandoning the struggle for silver,

¹ Instructions for the British Delegates to the International Monetary Conference at Brussels, 1892 ; Cmd. 6885.

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Congress passed on that date a law putting an end to the purchases of silver. This action was confirmed when Bryan was rejected at the Presidential Election of 1896, and when, after having vainly attempted to induce the Bank of England in 1897 to keep a part of its reserve in silver, the United States definitely adopted the gold standard in the year 1900.

Before we pass onward let us dismiss from our minds any narrow or parochial criticism of this attempted action on the part of the United States in favour of silver. The choice between gold and silver was a great, an open, an arguable matter. Indeed, Great Britain, though she could hardly be expected to forego her gold standard, had highly important silver interests of her own. For, consider, from the monetary standpoint, not this island alone, but the Empire of which she was, and is, the head. Our Colonies at this date, apart from India, had $20\frac{1}{2}$ million of inhabitants. Of these, $10\frac{1}{2}$ million were, no doubt, on the sterling standard, while another 5 million were using the United States eagle standard. Those who were using the pure silver standard were $1\frac{1}{2}$

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million, while $3\frac{1}{2}$ million were on the silver rupee standard.¹ Thus 5 million were on the silver standard, to be added to the teeming millions of India who had hoarded vast amounts of that metal and were on that standard too.

Besides this, we must remember that, though the United States were purchasing up to this date rather more than a third of the silver production of the entire world, India was buying on an average about one-quarter of that total and therefore had a deep interest in silver. "The immediate cause of our financial difficulties," wrote the Indian Minister of Finance in 1893, "and the cause which, by comparison and for the time being, dwarfs all others, is the fall in the gold value of silver." Thus silver was really a British interest too. As Sir Robert Peel had said in opening his 1842 Budget, "If the credit of India should be disordered . . . then the credit of England must be brought forward to its support."²

Henceforth China and Mexico would be the

¹ Cf. *A History of Currency in the British Colonies*, by Mr. Robert, now Lord, Chalmers, 1893.

² *Speeches of Sir Robert Peel*, Vol. III. p. 868. Speech of March 11, 1842.

only important nations on the silver standard. Might not that universal appetite create a scarcity of gold in the future, accompanied by a corresponding fall in the international price level? Long ago, in 1826, the Duke of Wellington, writing from Berlin, had observed prophetically: "The truth is that what is going on in the world will make silver useless as a measure of value, and I am afraid that for this evil there is no practical remedy."¹ This "evil" had now come about. Silver fell like a cataract. Great Britain's policy had held against the impact of America. But the end was not yet. The hour would come when silver would suddenly poke its pale face once more against the window-pane of the British Treasury.

The reason why none was now so poor as to do reverence to silver was that all this long time, from 1850 up to 1914, the stars in their courses were fighting in favour of gold. Time and again huge gold discoveries came to help the "gold-bugs," as their critics were pleased

¹ Letter of the Duke of Wellington to Sir Robert Peel, February 18, 1826: *Life of Sir Robert Peel*, by C. S. Parker, Vol. I. p. 395.

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to call them. There were the finds of California and Australia in the 'fifties; of the Rand as from the 'eighties; of Alaska as from 1898, and so forth. The monetary gold stock of the world, which in 1850 was only £230 million, had risen in 1913 to the enormous total of £1,600 million.¹ Of this latter amount, about £1,100 million was held in the reserves of the various banks, the remainder being in circulation.

Confining ourselves to the relative situation of Great Britain and the United States just before the War, our total gold stock was reckoned to be £161 million, of which the Bank of England held about £35 million.

The total gold stock of the United States was now very considerable, since "practically all of the increased supply of money in the United States between the years 1896 and 1914 was in gold."² In 1913, then, the United States held in gold: coin in Treasury, £197 million; bullion in Treasury, £60 million; coin in National Banks, £46 million;

¹ The estimate of the United States Statistical Abstract.

² *The Economics of the Gold Standard*, Dr. G. A. Jack, p. 52.

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coin in circulation, £76 million. Thus the total gold in the United States at this date was about £380 million, or twice the amount held in Great Britain.

Let us now jump ten years to arrive at the end of 1923. Something prodigious has happened in the interval. In the United States the gold in the Treasury and in the banks is now £750 million, while gold coin in circulation is about £80 million. This total of £830 million rose by 1927 up to £900 million and over.¹ At any rate, it constitutes about one-half of the available monetary stock of the world to-day.

Meanwhile, our own gold stock has not much altered in amount. But it has been redistributed, in the sense that what was in circulation and in the Joint Stock Banks is now in the Bank of England.

Fortunately for the power and the prestige of the United States, the gold question had suddenly become of commanding importance. On the one hand, almost all the commercial

¹ The Secretary of the Treasury gave it as £935 million in July 1927.

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nations of the world, from Great Britain herself even down to Albania, were striving to secure gold for themselves. On the other hand, according to the various calculations of the highest experts, Professors Gustav Cassel and Lehfeldt, Mr. Joseph Kitchin and Dr. T. E. Gregory, there was not great prospect of any considerable increase in the future output of gold, still less of any increase proportionate to the eventual requirements of the growing consumption of the world. Hence, arising out of this new situation, the United States, the holder of the world's gold-bag, took on more consequence every day.

By a singular sequence of economic events the first people to come to the financiers of America, with a request for some of her gold, was India—India, who had struck that fatal blow at the silver policy of the United States in 1893.

Since that date when, on the advice of the Herschell Committee, the free coinage of silver was stopped, rupees, being henceforth limited in amount, had steadily appreciated. By 1898 they had reached the level of 1*s.* 4*d.* In that

year the Fowler Committee had declared for the establishment of a gold standard and even of a gold circulation for India, based on "the unrestricted coinage of gold." This recommendation had been endorsed by the Secretary of State, but, in fact, no more was done than to maintain the rupee at its gold value of 1*s.* 4*d.* by buying and selling exchange. Thus, what was known as a gold exchange standard, or which, perhaps, should more properly have been termed a standard of sterling exchange, was evolved in the course of time.

In 1913 another Commission was appointed to examine the matter. This Chamberlain Commission abandoned the idea of a gold standard proper and opted for a gold exchange standard, *i.e.* a circulation of rupees apparently to be maintained at 1*s.* 4*d.* by offers of gold. But the War intervened, and found India still on its standard of sterling exchange.

The War blew the Indian standard sky high. Silver rose to unprecedented prices. If the Government had tried to maintain the rupee at 1*s.* 4*d.* it would have been either futile or ruinous. So the rupee was cast loose from its

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moorings and rose like a balloon to 2s. 4d. at the close of 1919, as measured in gold.

The next step was that, on the advice of the Babington-Smith Committee of 1919, an attempt was made to fix the rupee at 2s. gold.¹ But this failed utterly, for silver was crashing now. Indeed, early in 1921 the rupee reached the level of 1s. gold. Then another turn of the ever-shifting tide. Once more the rupee climbed upwards until it reached an apparently stable level of 1s. 6d. in 1926.

Accordingly, in July 1926, the Hilton Young Commission, which had been instituted in 1925, reported on the matter. With its invaluable Report and Proceedings we are not concerned, except in so far as they reveal the economic impact of America.

It must be explained that this Commission had first and foremost to consider the monetary policy outlined by the Finance Department of the Indian Government. This involved providing India with about £103 million of

¹ The Indian Coinage Amendment Act, Act XXXVI. of 1920. The sovereign was made legal tender at Rs. 10.

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gold, and the sale by India of a huge amount of silver equal to about three times the annual production of the world. It seemed quite possible that the United States might be induced to part with this gold, which would only be a portion of their huge store of useless, unremunerative metal. If so, then India could throw off her embarrassing association with silver and could enter into the haven of the gold standard. But the United States declined to be as obliging as all that.

It may be said that the United States were possibly justified in making such a refusal.

It is true that since 1914, with the exception of occasional years, gold had poured into the United States. One main reason for this influx was that the European belligerents had abandoned the gold standard, and this naturally diverted gold to the United States, where the gold standard was maintained.¹

All this resulted in the fact that the possibly superfluous gold in the United States might be reckoned as follows in 1926. The Federal

¹ Gold exports were, however, prohibited, except under licence, from September 1917 up to June 30, 1919.

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Reserve Banks held about £550 million, constituting a reserve ratio of about 70 per cent. According to existing practice and legislation, these banks could function properly on a ratio of 40 to 50 per cent. Thus, without compelling credit contraction, some £180 million could be set free on this showing. Then there were the gold certificates in circulation, amounting to, say, £200 million. Against these, of course, an equivalent amount of gold is retained in the United States Treasury. But if they were to be replaced by Federal Reserve notes, backed by the proper gold reserve of 40 to 50 per cent., this evidently would release another amount, of, say, £100 million. Such, apparently, was the possible "free" stock of gold.

In reply to all this, however, a powerful case could be presented. Was it reasonable to suppose that the United States, the traditional friend, for very practical reasons, of silver, should finance a scheme calculated to smash the market price of silver? Would that really suit the interests of the people of India themselves, with their not less traditional love, and

their huge hoards, of the white metal? Besides, although there was at the moment a theoretical surplus of gold in the United States, it is quite probable, according to the weight of expert evidence, that this "free" gold would presently tend to be absorbed.

In this connection we may recall the terms of the report of the Joint Committee set up in 1919 by the United States Department of the Interior to study the gold situation. "The future of gold production is problematical. The gold output of the world seems to have passed its zenith, and to be on the decline."

Again, assume that the world requires a 3 per cent. per annum increase in its gold stock, in order to maintain prices at their existing level. On that basis, even if the gold production of the world continues in its present movement, it is probable that after 1933 a scarcity of gold will begin to make itself felt. Indeed, the Royal Commission on Indian Currency has itself reported that it was "convinced" of the possibility, and indeed the probability, "that unless great economy is exercised in the use of gold, both in regard to

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its use as a commodity and its use as money, we have to look forward to a prolonged period of steadily falling commodity prices throughout the world.”¹ A speculation, perhaps—but perhaps a truth. Therefore, let all those who have gold adhere to it!

Accordingly, the expert representative of the United States declared in evidence before the Indian Commission that this huge accumulation of American gold “may be properly regarded as a sort of cushion, which gives a fair degree of assurance that, in the years immediately ahead, there will be sufficient gold available to maintain prices at something like the present levels throughout the world. . . . It certainly renders the world a little less dependent upon the vagaries of gold production from year to year that there is this large store of gold in the United States, available, in one way or another, to support prices throughout the world at something like the present levels.”²

¹ Report of Royal Commission on Indian Currency and Finance, para. 36.

² Answer of Doctor Sprague, 15,311, Royal Commission on Indian Currency and Finance.

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Thus India, so far as the United States is concerned, has had to be left to stew in her own juice, that juice which she prepared for others in 1893.

Of more momentous importance for Great Britain was the question of ourselves returning to the gold standard. We did so in April 1925. How did the economic impact of America operate upon us in this case?

The advantage for us of a restoration of the gold standard was that, if we did not take such action, the monetary power of the world could not fail, apparently, to centre henceforth in the United States. So far, the interest of the latter might be thought, perhaps, not to favour our return to the gold standard. But, as against this, the United States was really not interested in our fall from financial grace. For she could genuinely regard us as her financial agent, as her business intermediary, in that incomprehensible and impecunious Europe over which she was scattering her spare savings far and wide. Besides, we owed her a huge debt. Other European nations owed her huge debts also, so that Great Britain could profit-

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ably be retained as an old family solicitor, or, at any rate, as a bellwether of virtue for her financial flock. Britain was a debtor who had paid up astonishingly, more, perhaps, than was expected. In fact, the balance so much inclined in our favour that, in order to facilitate our return to the gold standard, credits of not less than £60 million were extended to us in order to make assurance doubly sure.¹

So far, then, any adverse impact of America was wholly absent from the situation. On the contrary, her business men were rather operating the other way, in the sense of buying sterling for the rise, and of thus assisting us. What was equally, or more, important, her statesmen were favourably disposed also, most probably for the cogent reasons already mentioned. As the present Governor of the Bank of England stated in evidence before the Royal Commission on Indian Currency in 1926, "I must remind you that in order that this country, Great Britain, might return with safety to the old standard which was enjoyed

¹ Cf. Speech of Chancellor of the Exchequer, House of Commons, April 28, 1925.

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here before the War, it was necessary for this country, during the transition stage, to enjoy not only the credit, but also the good-will, of the United States.”¹

Unfortunately, however, good-will between great financial authorities is not enough. The mutual interplay of the economic forces of nations is more potent still. As our Currency Committee of 1925 indicated, the policy of the gold standard, indispensable as it was, hinged in a degree on the course of American prices, or, in other words, on the purchasing power of the \$.

After the War ended, Great Britain and the United States both passed, at first, through the same economic experiences. Both countries enjoyed a boom in business, only to be succeeded by a collapse in 1920 and the early part of 1921. In fact, the credit deflation, the fall of prices, was even more rapid and drastic in the United States than in Great Britain. From 1921 onwards, however, the

¹ Answer 13,740 of the Rt. Hon. Montagu Norman, Evidence before Royal Commission on Indian Currency and Finance, Vol. V. p. 192.

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economic histories of the two nations began to move on divergent lines.

As for America, she entered thenceforth upon a period of rapid progress. That is evident, whether we judge by the index figures of the American Bureau of Labour Statistics, or by the statements of the Reporting Member Banks of the Federal Reserve system, or else, still better, by the total bank deposits furnished in the reports of the Controller of the Currency. To confine ourselves to the last of these returns, the total bank deposits in America grew from about £7,000 million in 1922 up to nearly £10,000 million at the opening of 1927.¹ Conversely, the deposits of the London Clearing Banks either fell or did not advance beyond their previous level.²

It may, perhaps, be argued that the American bank deposits were swollen because an inflationary policy had been pursued, because the banks had lent too freely, and so forth. But, if so, we should inevitably trace such

¹ Cf. *Report on the Economic Conditions of the United States of America, 1927*, p. 18.

² Cf. Rt. Hon. R. McKenna, speech to General Meeting of Shareholders of Midland Bank, January 28, 1927.

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inflation in a rising scale of prices, due to the fact that the volume of bank credits, the fairest measure of purchasing power, was thus outstripping production. There is, however, no sign of this. If we turn to the course of prices in the United States, taking the basic 1913 figure of 100, wholesale prices there stood at 148 at the close of 1922. They stood at 147 at the opening of 1927. It is true that there was a slight rise up to an average of 159 in 1925, but this rise was quickly lost.

Hence the expansion of bank credits had not caused inflation. They had moved correspondingly with the gold behind them. In the words of the Governor of the Federal Reserve Bank of New York, "It is a fact that, notwithstanding the large increase in the amount of gold held in the country, there has been no considerable increase in the total percentage of monetary gold to the total deposit liabilities of all the commercial banks of the country. The expansion of credit has kept pace with the accession of our gold stock."¹ Further, the bank credits, largely as they had

¹ Answer 15,381 (2) before Indian Currency Commission, 1926.

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increased, had only expanded in due correspondence with industry. Otherwise, there would have been a rise in prices.

In Great Britain the course of events, as already indicated, was different. Our monetary policy was that of deflation in 1920 and 1921. It continued to be so after 1921. Why? An ex-Chancellor of the Exchequer, the Chairman of the Midland Bank, has told us: "I am not discussing the merits of the Bank of England policy. Deflation, even rigorous deflation, was a harsh necessity in 1920 and 1921. Its continuance in varying degrees of intensity through the following three years, after the United States had abandoned the process, was based on the desire to effect an early return to the gold standard."¹

But once we had attained the gold standard, the legitimate object of our desires, in 1925, how were we to secure best its satisfactory working for the future? As above mentioned, the Currency Committee of 1925 indicated that the most satisfactory way would be by a rise in American prices. That was equivalent

¹ Rt. Hon. R. McKenna, speech above quoted, January 28, 1927.

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to a fall in the purchasing power of the \$, and the consequential automatic rise in the £. But since, as we have seen, a rise in prices practically did not occur in America, then could the alternative, *i.e.* a rise in the £, be brought about by our export of gold? But we have very little gold to export, and the effect nowadays of any important export of gold has more implications in it than it had in the days when Walter Bagehot explained them in his *Lombard Street*.

The effects of such export of gold are, no doubt, partly those of old days, but there are new ones to be reckoned in with them. All these effects, new and old, have been fully explained by the Governor of the Bank of England before the Royal Commission on Indian Currency. "The position of the Bank would, of course, be altered by the export of gold and its reduced reserve. The currency would be contracted by the withdrawal of notes from circulation, and, further, a matter which I think is of importance, the proposed amalgamation of the notes of the Bank of England and of the Treasury might have to be

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indefinitely postponed by the reduction of the gold backing to the combined issues. Then as regards the policy of the Bank, that would be deflected by the necessity of replenishing the reserve by attracting gold from abroad. The proper instrument for that purpose is the bank rate, which would have to be raised sufficiently to provoke an inflow of gold.”¹

As regards the amalgamation of the note issues in question, “its postponement would be adverse, because it would leave indeterminate the policy of this country with regard to the point at which the general price level is to be fixed.” The Governor proceeded to point out that “the contraction of credit would, I assume, result in a lowering of general prices, gold would appreciate in value, and *pro tanto* increase the real burden of the national indebtedness.”²

It will be observed that the two new effects of a gold outflow, additional to the old familiar ones of pre-War days, are that it would post-

¹ Answer 13,666, before Indian Currency Commission, 1926.

² Answers 13,667 and 13,672, before Indian Currency Commission.

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pone the important amalgamation of our note issues, and, a still more serious matter, would increase the burden of the debt due to America.

It would seem, then, that, since the adoption of the gold standard, we have been standing in a situation involving a certain apparent difficulty. If we were to forego the gold standard, we should inevitably lose our financial prestige throughout the world. But, in order to maintain that standard, we are evidently subject to possible pressure upon our existing store of gold, and, by consequence, upon our price level, and, by a still further consequence, upon the functioning of our industrial system, which operates upon that basis of price.

Who is it who, in virtue of its great economic strength, has confronted us with this apparent problem of reconciling our financial with our industrial necessities? It is America. And why is it America? Because, as Lord Bradbury told the Indian Currency Commission of 1926, "at the present moment the main burden of carrying the world's gold reserves rests on the shoulders of the United

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States of America.”¹ Because, in other words, it is gold which adjusts the balance of our economic system, and it is America who has the main stock of gold.

Let us illustrate these general observations by a practical instance which will make them clear to all.

As the summer of 1927 proceeded, the money rates in Europe tended to increase. Berlin raised her rate to 6 per cent. in June, Vienna to 7 per cent. in July, and so forth. A rise in the London rate seemed also on the cards. In America also a rise appeared to be a possibility, seeing that, in the previous August of 1926, the New York re-discount rate had been advanced from $3\frac{1}{2}$ per cent. to 4 per cent. After all, such a rise might well be justified on the ground that in the United States, as elsewhere, the seasonal movement of the crops entails loans to agriculture.

Instead, however, of any rise of rates occurring in America, the tendency ran all the other way. Throughout July the money market developed a downward trend. Call money sank

¹ Answer 14,206, before Indian Currency Commission.

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to $3\frac{1}{2}$ per cent. The open market discount rate for bankers' bills fell by $\frac{1}{4}$ per cent., thus bringing down that rate to fully $\frac{1}{2}$ per cent. below the official New York rate. Why this decline in American rates, and what reaction would it have in London? We cannot do better than turn to the commentary of the City Editor of *The Times*.

“The cheapening of money in America is due to several causes, the chief among which has been the import of gold. . . . Banks have derived a considerable amount of funds from the influx of gold. . . . The total gold reserve of the Reserve Banks is now £602 million against £567 million a year ago. The ratio of total reserves to combined deposit and note liabilities is now 77·8 per cent. against 75·4 per cent. a year ago.”¹ A very comfortable situation!

Accordingly, in August the American bank rate was lowered from 4 to $3\frac{1}{2}$ per cent. How did this movement react upon the London money market? We continue the quotation. “Most of the Central Banks of

¹ City Notes of *The Times*, August 8, 1927.

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Europe have smaller gold and valuta reserves than they had some time ago, owing to indebtedness to America." Nevertheless, "in this country a rise in the bank rate in the immediate future has fortunately been avoided by the reduction in the American rate, but this is due to the comfortable credit situation of America with her great stocks of gold, and is not due to any favourable movement in the domestic credit situation, which remains as tight as a drum."¹

Here, then, is a page extracted from contemporary economic history. Very clearly can we observe, without need of further comment, the action of financial influence, of economic power, in living force before our eyes.

Look again at the same matter, this time in its converse effect on us. "London no longer holds the great position it held before the War. We have to accept that London no longer holds that position; in pre-War days we could control the rate of interest practically throughout the world, we had our money in every country; it was only necessary for us to

¹ City Notes of *The Times*, August 9, 1927.

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call money in to cause the rate of interest to rise everywhere, and the Bank of England rate controlled the rate of interest everywhere. That position is largely true, but not so true, to-day. It is true as regards the whole world, leaving the United States out. The United States to-day is the great creditor nation, lending to the world; and, if it calls its money in, it raises the rate of interest not merely on the Continent but in London.”¹

But, according to the Secretary of Commerce, the United States is “a short-term debtor nation, a deposit-holding nation,” to the amount, possibly, of £400,000,000. Suppose that in one of their crises we were to call upon this gold. A situation would then have arisen which would go far to disprove the recent statement of one of our most eminent Bank Chairmen that “the American price level is not affected by gold movements,” and that “in a very real sense the world is on the dollar standard.” In reality, it is the dollar at one time, and the pound at another, which has the pull.

¹ Sir George Paish, speech at Annual General Meeting of Sound Currency Association at the Mansion House, March 30, 1926, p. 11.

CHAPTER IX

THE FUTURE—WAR DEBT AND EXPORTS

IT is time to resume and summarise the purport of the preceding chapters, and to explain the purport of those to come.

In Chapter I mention was made of the chief items in that aggregate of forces which to-day constitute the economic impact of America. In the next five chapters the task was undertaken of analysing the nature and extent of this impact in the pre-War days of its normal operation. This analysis is of importance, because even in those days, and indeed during the twenty years prior to 1914, the United States was already the leading industrial Power in the world. Hence such an examination could enable us to observe the process in normal operation, free from the disturbing events of the War period.

The conclusion reached as regards this pre-

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War period, when we were already experiencing in most directions the mighty influence emanating from America, was that, though it hit us hard in some places, we sustained it well on the whole. It may even be said that we flourished with it. At any rate, in the last completed year before the War, in 1913, we could observe a common prosperity.

Proceeding to Chapters VII and VIII, it was shown in what manner and to what degree the War upset this fair equilibrium, this reasonable balance, of the pre-War period. The United States emerges from the War with intensified economic strength. Great Britain reacts by restoring her gold standard, and by maintaining her exports to America.

In this chapter we arrive at the consideration of the future. To estimate what the future will produce, in this matter of the economic impact of America, is henceforth our task. In order to achieve it we must estimate, point by point, the future incidence of those five items of impact mentioned in Chapter I. Only thus can we arrive at our object, and frame our conclusion as to the coming time.

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The first of these items in question is the huge obligation of our annuities due to the United States under the settlement of 1923.

It is often argued on both sides of the Atlantic that the less now said about that settlement the better; that it is signed and sealed; that we have got to "grin and bear it"; that it is a point of honour to accept it finally; and that it would be altogether undignified to make a fuss about it now. All this is very well meant, but is becoming, or will soon become, out of step with the march of events.

Suppose, for instance, that equity, after all, is against this settlement, and then suppose also that presently it comes to be recognised that, not only equity, but also weighty practical interests are ranged solidly against that whole scheme of War settlements, of which the Anglo-American Agreement is only one example. Why, in that case, should the latter be sacrosanct? Is this a foolish or a wild supposition? So far from being so, it has always been the expressed opinion of the British Government that the best, and even the only, solution of

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this problem lies in the mutual cancellation of these obligations. It is true to add that this has not been the view taken by the Government of the United States.

Let us be careful to do full justice, on the ground of equity itself, to this view of the United States. After the Treaty of Versailles had been signed, the statesmen of America could point out that the same morality, which had dictated the economic clauses of the peace against Germany, equally dictated insistence by America on her claims against Europe. Germany had dragged Europe into the War. Europe had dragged America into the War. Europe was penalising Germany. Why, then, should not America treat Europe likewise? As Mr. Keynes pointed out at that date: "Europe, if she is to survive her troubles, will need so much magnanimity from America that she must herself practise it."¹ This magnanimity was not apparent to American eyes, studying the clauses of the Versailles Treaty, and when, subsequent to that Treaty,

¹ Mr. J. M. Keynes, *The Economic Consequences of the Peace*, 1920, p. 135.

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the Reparations Commission in 1921 fixed the liability of Germany at no less than £6,600 million, that magnanimity was still not apparent to them.

Besides this consideration, we must remember that the United States Government, in making these huge advances, necessarily contracted an immense internal debt. If we take it at the date when the question of cancelling these international debts came up first, the American national debt stood, according to our Chancellor of the Exchequer, at £5,147 million.¹ This constituted a burden of £47 per head, while the rate of taxation was about £8 10s. per head. The national debt had been only £258 million at the date when the United States entered the War.

It is true that at the same date the British national debt was £7,766 million, a burden of £181 per head; while our taxation was at the rate of £17 17s. per head. But all that comparison was not America's affair.

In a word, the World War presented itself

¹ The Chancellor of the Exchequer in the House of Commons, August 3, 1922.

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as follows to the American people : “ Europe has cost us a stupendous sum of money. Europe is engaged in extracting huge sums from Germany. Allow us in all fairness to get back something of our own from Europe.”

On the other side of the issue, the fundamental position adopted by the British Government appears unassailable, both in equity and in logic. The Balfour Note of 1922 declared : “ Can the present world situation be looked at only from this narrow standpoint ? It is true that many of the Allied and Associated Powers are, as between each other, creditors or debtors, or both. But they were, and are, much more. They were partners in the greatest international effort ever made in the cause of freedom. They are still partners in dealing with some, at least, of the results. These debts were incurred, these loans made, not for the separate advantage of particular States, but for a great purpose common to all, and that purpose has been, in the main, accomplished.”¹

The Chancellor of the Exchequer, Sir Robert Horne, adopted the same position. He in-

¹ *Miscellaneous Paper*, No. 5, 1922, p. 3, dated August 1, 1922.

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formed the House of Commons that, in the negotiations, he held very strongly the view that no greater impediment existed to-day to the recovery of the world from the disastrous consequences of the War than the burden of debt. He proceeded that, since that view was at present unacceptable, "we must turn our backs upon things which perhaps all the world was waiting for . . . reflecting that if it had been possible that the nations who fought in the War side by side, who shared the same privations, who faced the same trials, who endured the same agonies and the same losses, had been willing to regard their subscriptions to the cost of the War as contributions to our common success, we might have been able to rid the world of many causes of irritation, and plant in the heart of humanity a new and inspiring hope."¹

It is as well to ponder carefully the significance for the future of this conviction, so openly avowed and so emphatically expressed by the British Government.

¹ The Chancellor of the Exchequer in the House of Commons, August 3, 1922.

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This complete opposition between the views of the two Governments still continues up to date. Nevertheless, the swift current of events has already begun to modify the situation of 1922 and 1923. To begin with, the internal War debt of America is being immensely and rapidly reduced, so that this obstacle to the reconsideration of the subject tends to disappear.

This fact is very well illustrated in the Address issued by the President of the United States at the close of 1927. The burden of taxation, said Mr. Coolidge, had been heavy, but it had been borne with great courage and had already been materially reduced three times. The enormous debt had been increasingly diminished in amount. More than £3,600 million of this debt still remained. It was a menace to their credit and their greatest weakness in the line of national defence. He urged that it should be retired as fast as possible under a system of reasonable taxation.¹

An impartial observer may be pardoned for considering such a debt to be, comparatively

¹ Cf. *The Times*, November 19, 1927.

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considered, not very onerous for so huge and wealthy a Continent. Indeed, the British taxpayer, who was labouring just then under an annual load of £15 per head, might perhaps have wished to exchange his situation with the wealthier tax-payers of the United States under a taxation load of less than £6 per head.

There is another factor which has arisen since 1922 to modify the situation. Europe, under American auspices, has made the Dawes Settlement of 1924.

The virtue of the Dawes Settlement was to destroy the Saga of the Millions, now as dead as that previous Saga of the Millennium, which pair of romances rejoiced so many hearts in the Armistice Days. For, at that date, the statesmen of the world assumed that it was for them to fix the amount of what they wanted from Germany, and that it was for Germany forthwith to draw her cheque. No one was concerned to ask what bank would honour it. On this agreeable assumption it was hardly unreasonable that the United States should ask the European nations for some share in

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the billions so soon and so easily available for Continental coffers.

The Dawes Scheme having dispelled that dream, now bids fair itself to suffer amendment and even reconstruction. After all, even in 1925, Lord Bradbury wrote that "it would be unsafe to treat our share of Reparations as worth more than 50 per cent."¹ Even earlier, in 1924, the Chancellor of the Exchequer himself informed the House of Commons that "the Dawes hopes may not be fulfilled for many years."²

If this happens, then it is certain that France will at once take the field. France has always insisted that her War debt payments to Great Britain and the United States hinge on her receipts from Germany. As long ago as December 1922, M. Poincaré said at Downing Street: "The Inter-Allied Debts were contracted with a view to common victory, they constitute the expenses of the War. . . . The French Government cannot, either in equity

¹ Letter to *The Times*, May 28, 1925.

² Speech of Chancellor of the Exchequer in House of Commons, December 10, 1924.

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or in deed, pay either the capital of these debts or the interest upon them, until it is at least indemnified by payment from Germany for the expenses incurred, and to be incurred, for the reconstruction of the devastated areas.”¹

Again, in the *Inventaire*, issued by the French Government in 1924, we read: “Public opinion in France will not admit of our consenting, without a legitimate and corresponding reduction in the settlement of the inter-allied debts, to any reduction in that established system of repayment, to the initial execution of which the Dawes Plan has confined itself.”²

This attitude of the French Government must give us food for thought. If we examine the finances of France, we shall find that France has already spent about 74·5 milliards, or, at the current rate of exchange, about £604 million, on this whole work of reconstruction. She still has to spend a further

¹ Statement of M. Poincaré at 10, Downing Street, December 9, 1922; Cmd. paper 1812, pp. 102-3. Memorandum, Annexe 2, dated January 2, 1923.

² *Inventaire* issued by French Ministry of Finance, 1924, pp. 73-4.

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13·2 milliards, or about £106 million.¹ A total to be recouped to France, on the above theory, of £710 million. France's position, therefore, is that, in principle, she ought not to pay the annuities on her inter-allied debt until Germany has made good the destruction done in the devastated areas. *A fortiori*, if she does now discharge those annuities to Great Britain and America as an act of grace, she will certainly not consent to continue paying them if the Dawes Agreement is to fall.

It seems to follow that, if America were to accept the modification of the Dawes Agreement, for which she is to some extent responsible, France would seek correspondingly to modify her payments to Great Britain and the United States. By consequence, if this were to come about, the whole series of international agreements would have begun to go. For all this to come about, it would, perhaps, be advisable that the French should ratify their debt settlements with the United States, not to mention ourselves. For the United States could hardly

¹ Statement by the French Minister of Public Works, M. Tardieu, *The Times*, November 11, 1927.

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be disposed to make rearrangements until that is done.

At any rate, it seems that, in the above two respects, current events are beginning to undermine that basis upon which the United States founded her policy.

A third factor has made its appearance and operates in the same direction, though this factor is only of intellectual, and not of practical, weight to-day.

This consists of the argument contained in the Memorandum issued at the close of 1926 by the Faculty of Political Science of Columbia University under the auspices of President Nicholas Murray Butler. Certainly this Memorandum had no political propaganda behind it. But in the ratio in which it lacked numerical, it enjoyed argumentative, force.

The forty signatories, "no closet philosophers, but men in active touch with every branch of practical life," set forth, in this remarkable Memorandum, "an argument for the restudy of these debts . . . to be made by, or under, the direction of an International Conference summoned for that particular purpose."

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“In our judgment,” proceed these hardy critics, “the War debts settlements are unsound in principle . . . what we do urge is a complete reconsideration in the light of present knowledge.”

The first proposition advanced in defence of this recommendation was that “our War debts settlements have produced distrust and misunderstanding,” thus tending to upset the peaceful reconstruction of Europe. The next argument propounded was that “America went into the War on an issue of its own. The *casus belli* for the United States was the unrestrained submarine warfare,” while in the further background lay the peril threatening free institutions throughout the world.

When the War started, “we made extensive advances to other nations fighting a common enemy.” On what ground? “From the record of debates in Congress, it is clear that these advances were not regarded by those who voted them as business transactions, but rather as joint contributions to a common cause.” In any case, “the reason that we loaned the borrowers the money was the fact

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that by so doing they were also helping us to win our War . . . the credits were freely given because they were to secure for us effective support for our own efforts . . . they would have been justified by no other purpose."

The basis of the debt calculations, the Memorandum proceeded to say, was laid at the institution of the Funding Commission under the Act of Congress of 1922. At first an attempt was made to get the capital repaid in full at the rate of $4\frac{1}{2}$ per cent. This basis of interest, according to the argument of the Secretary of the Treasury, was generously abandoned. But, reply these unflinching contestants, why should any repayment at all be demanded of our Allies? "For over a year after our declaration of war their troops almost alone held the enemy in check . . . during this supreme crisis, if the Allies had spared lives or if we had stinted supplies, our war as well as theirs would have been lost. . . . There is no way to compare the value of supplies with that of lives sacrificed in war."

Besides, on what basis do these settlements

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rest? On capacity to pay? A figment, a myth, when applied to a future period of sixty-two years. For the purposes of calculating these annuities, pre-War figures are antiquated, and post-War figures are abnormal. "It is surely unjust to fix the burdens of future generations on the basis of guesswork."

Consider, too, the injustice of it all. "This injustice is all the more evident when one compares the various settlements and notes the wide discrepancies in liberality," with France asked to pay 50 per cent., Italy only 26 per cent., and Great Britain 85 per cent. "The phrase itself, 'the capacity to pay,' rings hard and heartless." And what of the relative burdens thus distributed among the Allies? To the American public "the scheduled annual debt payments for the next few years will constitute, it is estimated, less than one-third of 1 per cent. of our annual income." Meanwhile, "taxation, in proportion to income and population, is between two and three times heavier in England, France, and Italy than it is in the United States. Payments, which could at best mean a paltry gain for most

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American tax-payers, mean to the over-taxed debtors a crushing load."

In a word, "these advances were used by our associates to prosecute the War to our incalculable advantage." As a result they are impoverished and crippled. "No sober-minded economist would think of claiming that, should we cancel all the debts due to us, their economic position would be raised to anything approaching ours."

Such were the principles of equity and of reason invoked in this memorable document, so worthily conceived in the best interests of the world at large.

To pass now from this notice of the slow forces which are only beginning to make their way in this matter, let us observe our own financial position in regard to it, as things stand. If we take a narrow and a petty view, we may make a not very unsatisfactory calculation. We may flatter ourselves that, though presently we shall have to pay up to a maximum of £38 million a year to the United States, we shall be receiving, under the terms of our war debt settlements with France and Italy, a maximum

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annual sum of £22 million. Add the Dawes receipts. These latter, if duly paid, would furnish us a maximum of, say, £20 million. It is true that, as against this possibility of receiving higher payments than we make, Great Britain has undertaken to limit her claims, in respect of the inter-allied debts, to the amount which, together with our Reparation receipts, would suffice to cover our payments to the United States Government.¹

It might conceivably be argued from this that there is little need for us to worry, that, on this showing, the annuities payable to the United States will not hurt us, and that we shall not be out of pocket on the whole transaction. But it would be a profound error to harbour such an argument. The American policy of insistence, *quâ* us, entails upon us a corresponding insistence, *quâ* Europe. Hence the trouble not only is that, as averred by the Columbia Memorandum, the American debt policy inflames European sentiment against America, but also is that it foments an in-

¹ Cf. Answer of Chancellor of Exchequer, House of Commons, November 15, 1927.

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inflammation internal to Europe itself. Analysed to its root, the American impact, in this case, while losing an economic, assumes an international and political, character.

The second item of economic impact mentioned in Chapter I is the activity of the United States in exportation. We have now to estimate how far the intense application of their energies in this direction is likely to menace our future fortunes.

We must begin by realising that since the opening of 1922 American exports have continuously increased. Apart from temporary variations, "the American export trade, in its steady prosperity, presents a sharp contrast to that of European countries still wrestling with the dislocation of the War."¹ A vast official organisation, the Bureau of Foreign and Domestic Commerce, co-operates with the very active private organisations, such as the National Foreign Trade Council, the Foreign Trade Clubs, and so forth. It would be, therefore, an important error to suppose that

¹ *Report on Economic Conditions in the United States of America, 1927*, p. 61.

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their absorption in domestic trade in any way lessens their concentration on foreign trade. "So far as the machinery of export trade is concerned, the United States is in a strong position, and suffers no longer from any lack of direct financial and commercial representation in external markets. . . . The intensive sales methods, applied with such success in the domestic field, are being rapidly extended to foreign consuming countries."¹

This is not all. If we look back to 1913 and compare the place then enjoyed by American exports with the place which they now occupy in the markets of the world, we shall observe a significant change. In regard to Europe, indeed, things have not much altered. Europe is an old developed continent which does not need fully manufactured goods, except in abnormal times when, owing to warfare, her factories have ceased to work. Europe needs raw materials, food-stuffs and semi-manufactured articles. So the United States, while expanding its export of manufactures,

¹ *Report on Economic Conditions in the United States of America*, 1927, p. 61.

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does not cater for Europe otherwise than as before.

But the exports of American manufactured goods, by comparison with 1913, weigh more in those parts of the world nowadays which are less developed industrially—Canada, Mexico, Argentina, Brazil, Chili, Peru, Australia, and so forth. This was one of the opportunities afforded to the United States by the temporary abeyance of European activities during the period of the War. For instance, of the imports into Australia in 1913 the United States sent 14 per cent., and nowadays is sending, say, 24 per cent. "It may be observed that the largest relative gains of American exporters were made in the regions whose imports consist mainly of finished manufactures."¹

Consider the case of Canada. Nowhere is the economic invasion of America more visible and more direct than in Canada. The United States is her powerful neighbour and must inevitably dominate, at present, much of her economic life. Canada requires men and

¹ *Report on Economic Conditions in the United States of America*, 1927, p. 61.

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money for her development. The Americans have the money, and are both ready and anxious to invest it in any enterprise that shows a reasonable chance of fair returns. The opportunity lies ready at their door in that vast, undeveloped country with its great natural wealth. "Canada may have all the money she wants. . . . Americans are willing to take chances in Canada, and American capital is now pouring into the country in an endless stream. Canadians, ready always to take any steps towards the development of their resources, are receiving it with open hands and using it in the promotion of many new enterprises." ¹

The consequence of all this is that Canada seems to be emerging from the period of depression following the War, that her established enterprises are recovering the energy of old days, and the new undertakings are constantly increasing in number. We read, accordingly, that "with the aid of American capital, vast developments are now going on

¹ *Canada To-day; the American Invasion*, special article in *The Times*, December 5, 1927, p. 15.

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in every part of Canada.”¹ For instance, a new town, Arvida by name, has sprung into being under the impulses of American capital, which in a few years, it is said, will be a city of 50,000 persons. “If one could stand on the bank of the river at Detroit and look across to the Canadian bank, one could see before one’s eyes, in concrete form, the overflowing of American capital and industry into Canada. Detroit has grown rapidly in the last fifteen years, and its neighbour, Windsor, in Canada, has grown hand in hand with it.”²

All this sounds formidable enough. But let us examine it.

We have already seen in a previous chapter that, prior to the War, the competition of American exports with our own was of a very formidable character. The total of American exports in 1913 was £490 million, of which manufactures constituted £210 million. Yet, in spite of this, Great Britain was indubitably doing very well before the War, especially

¹ *Canada To-day; the American Invasion*, special article in *The Times*, December 5, 1927, p. 15.

² *Ibid.*

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in exports, and was not visibly injured by American rivalry, however severe. Why, then, should Great Britain be ruined by American exports now, if, reducing her figure of manufactures to their 1913 equivalence, America is exporting manufactures amounting to, say, £300 million. It seems difficult to contend that, while the former exports did us no serious injury, the latter will ruin or seriously invalidate us.

Besides this primary reflection, another consideration of a somewhat different order presents itself, when we review the real services that these American exports can claim to have accomplished.

The original stimulus for this movement was afforded, as we have seen, by the War. At that date huge demands were made for loans by the Allied Powers, and these loans which America advanced were utilised by the Allies to buy not only raw materials but also manufactured goods, of a nature indispensable for the prosecution of the War, and in default of the proper functioning of European factories. Thus these exports, presumably and admittedly, performed

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a service then for which Europe should be grateful, and of which certainly she has no right to complain. At any rate, we were all very grateful at the time, and raised a contemporary chorus of congratulation.

Passing onward to post-War days, the next great stimulus afforded to American exports was the necessity of charitable relief work, to be performed on behalf of the populations of Europe. In order to remind ourselves of this, let us turn to the 1919 Memorandum of the Director-General for Relief, Mr. Herbert Hoover, on the economic situation of Europe at that date.¹

At the date of the Armistice, Europe, we are told in this Memorandum, was in a condition of "demoralised productivity." "The production of necessaries for this 450 million population, including Russia, has never been at so low an ebb as at this day. . . . Fifteen million families are receiving unemployment allowances in one form or another, and are, in

¹ Memorandum dated July 3, 1919; Minutes of Proceedings of Supreme Economic Council, Vol. 330 in Library of League of Nations, Geneva, Appendix 240.

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the main, being paid by constant inflations of currency. . . . Even prior to the War these populations managed to produce from year to year but a trifling margin of commodities over necessary consumption." The armies and navies and a small non-productive class were "maintained at the cost of a dangerously low standard of living."

During the War the economic situation of Europe had been partially relieved by the fact that there was intensive economy, the patriotic stimulus to exertion, and the working of women. This balanced the diversion of the men from productive industry. But after the War this stimulus was lost. The place of that stimulus was taken by the theory of limitation of effort below physical necessity. Thus, on the whole, we were confronted with the fear of a further loss of life on a scale hitherto undreamed of. The entire productivity of the western hemisphere was in deficit, unless Europe and America should act together.

And hence, the Memorandum proceeded, if Europe would act so as to meet America half-

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way, "it is the duty of the West to put forth every possible effort to tide Europe over this period of temporary economic difficulties. . . . The resources of the western hemisphere must be mobilised." Our Save the Children Fund, and other good organisations, acted : America acted too.

In later years, at Boston, Massachusetts, Mr. Hoover delivered a truly remarkable address. "The charities of the United States," he said, "have saved the lives of upwards of 15 million persons since the outbreak of War in 1914." The main burden of America had been to support a maximum of six to eight million children. In January, 1921, three and a half million children were still dependent on charity till the next harvest.

And then, in memorable words, this great American citizen drew his justifiable moral in favour of the people who had accomplished this beneficent work of salvation. "It is a sufficient appeal to the heart of the American people to demonstrate the existence of a hungry child. . . . The planting of the American flag in the hearts of these fifteen million

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children is a service to your children and to mine.”¹

So far, then, we have seen that the great increase in the exports from the United States since 1914 was due primarily to the intense demands of Europe for foods and manufactures during the War, supplemented, as the War terminated, by the requirements of charity. Since that date, or, more exactly, since the post-War slump of 1920-21, the efficient cause acting as a vital stimulus to American exports has been the urgent crying need for world reconstruction. The War not only directly destroyed the plant of industry, but it also dislocated and dismembered international commerce, the sign of that dislocation and dismemberment being most clearly traceable in the fluctuations of the international currencies.

All this was the opportunity of the United States. For her plant stood ready for production. Indeed, it is estimated that her industrial capacity, compared with her actual production in 1923, stood in the ratio of 100 to

¹ Address of Mr. Herbert Hoover at Boston, Massachusetts, January 13, 1921.

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71·8.¹ Added to this, she maintained, exceptionally among all the nations of the world, the gold standard, although, to be sure, even gold itself has suffered a serious depreciation, as measured in the purchasing power of the \$. But if, when the world trembled on the verge of Bolshevism, this mighty economic power stepped forward into the breach and righted matters to some degree, the discomfort which we must experience at American rivalry in exportation must be, on the whole, subordinate to our satisfaction at the work thus accomplished.

But let us look at these exports in so far as they consist of American capital exported abroad. What has been, in fact, the actual extent, the definite direction, and finally the precise character of these American exports, so far as they are on account of foreign investment ?

If we take the total par value of foreign capital securities offered to the public in the United States during the last completed financial year, ending June, 1927, we find that it amounted to £302 million. During the two preceding years

¹ Cf. National Industrial Conference Board, Wall Chart Service. No. 117.

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the average was £270 million. Next, foreign securities taken by Americans, plus new direct investments abroad on American account, probably raised the above total, according to the calculation of the Secretary of Commerce, to £370 million for the year in question.¹

We may as well remember that there is an offset to this figure. Investors outside the United States were putting their money into the United States. These latter, it is officially estimated, would probably reduce the net amount, by which the United States grew as a creditor nation in that single year, to about one-third of the gross total, *i.e.* to, say, £120 million. The movement of other capital items would very much further reduce this net sum which America was investing abroad in that year.

In what shape did this American investment abroad materialise? Here we soar, or sink, more or less into the region of uncertain calculations. The old answer of the economists

¹ Annual Report of the Secretary of Commerce to President Coolidge, *The Times*, December 2, 1927.

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would be that this investment is effected by a surplus of exports over imports. This so-called "favourable balance of merchandise trade" of the United States was actually £143 million in that fiscal year. The causes of this divergence between the latter figure and the net figure of investments which the United States found, on the above-quoted assumption, are in the dark.

The reasons for this divergence are innumerable and are quite impossible of close calculation. As the Secretary of Commerce has himself remarked, "Our foreign trade is now in an era of big 'invisibles.'" These "invisibles," these credits and debits fighting in the dark against each other, are brought out as far as possible into the light by the American official experts, in order to justify their conclusion, above quoted, as to the real balance. We need not follow them except in one respect.

This latter item is of considerable interest. Foreign investments of a permanent character in the United States are now fairly considerable. A Trade Information bulletin of

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this time gives their sum, tentatively, at £600 million.¹ On the other hand, the United States had at the same date, 1926, fixed investments abroad estimated at £2,243 million, on which the revenue to be credited to her is reckoned at, say, £136 million, against the £36 million payable the other way. Hence, on this showing and at this period, the United States must have had £100 million to receive on invisible balance in respect of these fixed investments. This must evidently have been more than outweighed by an adverse balance created by other "invisibles." For the visible trade balance, by itself, more than accounts for the officially estimated net investment abroad by America.

On the whole, in this matter, we must content ourselves with the calculations, thus quoted, of the American officials. Their conclusions, as stated above, are that, in the latest year available, the United States had some £2,243 million invested abroad, and that she was adding to these investments at a considerable gross rate, according to the figures of the most

¹ United States Trade Information Bulletin, No. 503.

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recent year expired. All this, of course, is apart from the huge war debt obligations of Great Britain, of France and of Italy due to the United States.

The next question to which we addressed ourselves above was, not the amount but the direction, of all this big investment, now so rapidly being effected. And here we come upon some striking facts. It is true to say that the great majority of these investments are placed not in Europe, but in the Americas, *i.e.* in Latin America, on the one hand, and in Canada, on the other. According to the calculation made, as from the opening of 1926 by the Secretary of Commerce, it would seem that 70 per cent. of this investment was in Latin America and Canada; about 25 per cent. in Europe, and the balance in the rest of the world.¹

Another remarkable feature of the foreign investment policy of the United States is that, in regard to Europe, about three-quarters of the total is in Government securities and only

¹ *The Balance of the International Payments of the United States*, p. 15.

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the balance in industrial securities. But when we come to, say, Latin America, the ratios are completely reversed, in the sense that three-quarters, or thereabouts, of the American money has been invested in industrials.

Let us draw one or two deductions from these facts. It is evident that the foreign investments of the United States are divisible, broadly, into those in Europe and those in the Americas. How far can we consider that these investments in Europe are prejudicial to ourselves? They are mainly, as we have seen, in support of the European Governments. But is it not of the first importance for our own prosperity that these Governments should be sustained and restored after the ravages of the War? "The future development of British trade and industry," we are authoritatively told by our most experienced authorities, "is intimately bound up with the general restoration of the economic health and prosperity of the countries with which we trade. To promote the restoration of the general economic health, rather than to cripple the power of particular competitors by impeding their recovery, should

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be the immediate object of British commercial
policy.”¹

So far, then, as the restoration of Europe is concerned, it is our essential interest to forward it, and this interest must have been powerfully assisted by the huge sums poured into Europe by way of the exports of the United States.

As regards the other main flow of American exports, these have been passing, as mentioned above, to Latin America and Canada. And certainly it is here that we encounter the rivalry of American trade and feel its impact. Yet even here we must be careful not to exaggerate the situation. All this rivalry was in active process in the years prior to the War. If we study the distribution of American manufactured goods it seems that in that earlier time, 1910-14, the average ratio of the total imports going into Latin America was 12·7 per cent. coming from the United States. It was 12·8 per cent. in 1922 and has not moved very sensibly from that ratio. Again, Canada

¹ *Survey of Overseas Markets*, by Committee on Industry and Trade, 1926, p. 9.

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took from America 36·8 per cent. of her manufactured imports prior to the War, 1910-14, and continues much in that ratio. It is true that these percentages conceal the growth of the actual totals.

Assuming that growth, we have to ask finally what the specific nature of these American exports was and is to-day. First in importance still come the raw materials and food-stuffs so necessary to our prosperity. How, for instance, could we do without American cotton? Does not that cotton, after manufacture here, itself form no mean part and parcel of our power of world competition?

Turning from these to the manufactured exports of the United States, these goods may broadly be divided into equipment for productive purposes and goods for direct consumption. Among the former are all the items necessary for railway development, accompanied by a very wide range of machinery and tools of all sorts. The nature of this machinery is generally designed to economise labour. All that vast series of labour-saving devices, comprising office equipment and domestic articles

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of that character, are the real specialities of the United States export trade.

Why, let us ask ourselves, should all this work havoc with the trade of Great Britain? Take the Argentine. On the average of current years it is probably true that the United Kingdom, the United States and Germany are sharing between them in equal ratios some 60 per cent. of the total imports into that country. "The principal competitor with the United Kingdom is the United States. But a good proportion of the trade of each country comprises goods in which the other cannot effectively compete at the present time, such as agricultural machinery, automobiles, petroleum products, lumber, binder twine, news print, cinematograph films, oil well supplies—exported by the United States; and woollens, worsteds, and many descriptions of cotton goods—exported by the United Kingdom."¹

Let us, however, look at this said matter of American exports not so much from the American, as from the British, standpoint. Are they really, as declared by some responsible

¹ *Survey of Overseas Trade*, pp. 469-70, 1926.

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statesmen quoted in Chapter I, at the basis of the embarrassments of our export trade?

The exports of a great and wealthy people are employed altogether in three tasks. Primarily, they pay for the imports necessary for its internal business. Next, they are called upon to discharge the interest payments due to those foreigners who have placed their invested money within its territory. Lastly, these exports go to build up the investments of the nation in foreign lands. So far as the United States exports accomplish the first and second of these tasks, there can be, at any rate, no question but that they are of direct service to ourselves, whether as traders or investors abroad.

As regards the third function of exports referred to above, we have already analysed in the case of America the extent, the direction, and the specific character which they have assumed and assume to-day. They have gone, in fact, to secure victory in the War, to combat the dire distress of the European peoples, and also to develop, in chief, Canada and the Latin Americas on industrial lines. What substantial

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quarrel can we have with them over their discharge of these services ?

Our export trade suffers, indeed, under a weight of industrial troubles, under an accumulation of anxieties, rarely experienced before. But to what causes are those evils actually attributable ? Our trade troubles are due to two sets of economic causes, each of them of the gravest importance. One set of these causes is domestic and internal to Great Britain. The other set of causes has an external origin, and arises on the international markets. To discuss the former set of causes is obviously outside the scope of this work. And besides, their nature and degree is known intimately, more or less, to all of us. We are, unfortunately, only too familiar with them—the deterioration arising from unemployment, the crushing weight of taxation, the dislocation of industry since the War, our price level with its inadequate correlation to that of other countries, the obsolescence of much of our machinery, and so forth. A thousand economists have told us all of it. Our field of knowledge here has been irrigated by the

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most ample streams of information. *Sat prata biberunt.*

But our duty is altogether different in respect of the other, the external, set of causes. Here it is indispensable for us to elucidate them. Where does America figure among them?

The external difficulties in question, which our exporters experience so acutely, arise from the decline of purchasing power in foreign countries, from the growth of local manufactures, and, lastly, from the displacement of our products by those of other nations. Be it said that these adverse forces sometimes operate separately and sometimes in conjunction.

For instance, a recent inquiry into our exports of pig iron to France, Italy and India has shown that in each case there was a decrease, due to a different one of the above causes. In the case of France, the decline was due to an increase in the local production of France. In the case of Italy, it was due to the decline of local consumption. In the case of India, it was due to China and Japan competing successfully with us to some extent in that market.

Similarly, the decrease of our exports of

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cotton piece goods to India since the War has been caused, as regards about three-fifths, by diminished consumption, as regards about one-quarter, by increased local production, and, as regards about one-seventh, by increased foreign competition from Europe and Japan. In these highly important cases the rivalry of the United States has not counted appreciably in the balance.

The first of the adverse causes above mentioned, *i.e.* the decline in the world's purchasing power, has operated chiefly in Europe and the Near and Far East. In the case of Central Europe, one of the principal contributory causes has been financial dislocation, and the disorganisation of currency and exchange. In the great Eastern markets of India and China, the narrowing of the European outlets for the export of native produce, combined with the internal conditions of political unrest, has undoubtedly diminished the purchasing power of these vast, but comparatively poor, populations. The political conditions prevailing in Russia have, of course, been detrimental to our foreign trade. Thus the diminished purchasing power

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of half the world has proved to be a very substantial cause of the embarrassments of our export trade. This has had nothing to do with America.

The next of the adverse causes in question, *i.e.* the growth of local manufactures, is another almost universal cause which has arisen to trouble our export trade at the present time. It must be conceded that, in part, this tendency for every nation to try to manufacture for itself is healthy, but, in part, is abnormal. The War cut off the nations from each other's supplies, and, in order to guard against the recurrence of that danger, they have taken steps, by a natural instinct, to provide in future for their industrial independence. Besides this, the War stimulated many abnormal undertakings, and these, like King Charles II, are very long in dying, though, unlike that monarch, they have not the grace to apologise for their delay. Nevertheless, when these latter transitional enterprises have disappeared in the course of nature, a considerable residue of extra industrial power will remain afoot in many quarters of the world.

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We can observe this tendency towards industrial nationalism acting in a very marked degree within the boundaries of our own Empire. In Canada there has been, of course, an immense growth of manufactures. Australia has exerted her best efforts for the development of woollens. So in India, where nationalist sentiment has been a powerful agent in this direction. With Brazil the same. In Argentina it is stated that the industrial production is nearly thrice the pre-War scale. In Chile attempts are being made to accomplish the same end in numerous directions. In Japan, China, India and Brazil, taken together, the cotton spindles numbered about ten millions in 1913; they are probably over eighteen millions to-day. The annual production of steel just before the War in Japan, China, India and Australia was 360,000 tons. Ten years later it was nearly ten times that amount, and is quite probably as much, if not more, to-day.

But, on the other hand, there are distinct compensations even for all this. The character of much of this new production is con-

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centration on the rougher, inferior goods. Thus international commerce, if restricted for a time, tends to be driven on the finer qualities of manufacture. Indeed, it is noticeable that, volume for volume, our exports now fetch more than is proportional to the general rise in wholesale prices since the War. The Committee on Industry and Trade reports: "We find the reputation of this country, in most markets, stands high compared with that of its competitors. The difficulties met with by British trade in competition with other export countries arise much more from questions of comparative cost than of comparative quality. Any tendency for competition to develop on the basis of quality should, therefore, *prima facie*, be beneficial to us."¹

There is another consideration to be mentioned, and here we meet with the United States. If local industries flourish, that must inevitably mean increased purchasing power, and this increased purchasing power percolates, to our benefit, into international trade. For instance, it is observable that the huge

¹ Introduction to *Survey of Overseas Markets*, 1926, p. 11.

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industrial expansion of the United States has long been putting a check on their export of wheat and meat, since the population, becoming industrialised, produces relatively less, and consumes more, of these two articles. The two-fold consequence arises that the increased purchasing power of America insists on procuring some, at any rate, of our goods, which it could not take otherwise in consequence of the tariff; and also that the British Dominions and South America tend to step into the position of wheat and meat producers evacuated by the United States, and purchase our goods in return for what they thus send to us of these staples.

So far, then, we have argued that, of the two factors which place obstacles in the way of our exports, the first is the decline of local purchasing power; and that, so far from this being any affair of the United States, this is the very thing that the United States has combated, and for which, at any rate, she is no way responsible. The next factor, as above mentioned, is the growth of local manufacture throughout the world. Here the chief example

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is, of course, the United States. In this case our general conclusion is that, prejudicial as it may appear at first sight for our fortunes, it is a movement which automatically sets up compensating effects for ourselves.

The third great factor of the series under review is the direct displacement of British exports by exports from other sources. How far have we suffered the impact of America in this respect?

In order to put this matter in the clearest light, let us review the position in 1913 of the four most actively industrial foreign nations, Germany, Belgium, France and the United States, and then let us compare it with what it was ten years later. We will confine ourselves to the exportation of manufactured goods from these four countries, and also, for comparative purposes, we will state their exports in the latter year on the basis of 1913 prices. On this basis, Germany registered a decrease of £113 million; Belgium, a decrease of £7 million; France, an increase of £30 million; the United States an increase of £105 million. Here, then, we find a net increase of manu-

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factured exports of only £15 million, or rather less than 2 per cent. of the whole.

We can legitimately argue from this that the net effect of the War upon our exports in these capital instances was that Germany declined as a serious competitor, and that the United States advanced and took the place of Germany.¹ Broadly speaking, on this showing, it is not so much that the world competition is, in itself, more severe than before, but it is that the quarter from which the impact comes has altered. The United States is where Germany was. The United States has achieved success by replacing others. We must take this into account before accepting the assumption that her exported manufactures are a feature of overwhelming novelty and menace.

The outcome of this long argument is that it is not so much the economic strength of the world, as the economic weakness of the world, which is our real danger. "The adverse forces which still operate in the markets themselves to retard the full recovery of British trade are,

¹ Cf. Table II, p. 670, of *Survey of Overseas Markets*, 1926.

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in the main, world forces.”¹ There are places, no doubt, as has been shown, where our exports and those of the United States come into distinct rivalry, but, on the whole, the exports of the two great peoples perform a common work.

Introduction to Survey of Overseas Markets, p. 25, 1926.

CHAPTER X

THE FUTURE—TARIFF AND SHIPPING

IN the last chapter we commenced to examine the future incidence upon our fortunes of the five items mentioned in Chapter I as constituting the economic impact of America. Only the first two were dealt with, *i.e.* the burden of the annuities due to be paid by us under the 1923 Settlement, and also the effect produced upon our prosperity by the character and extent of the American export trade.

The general argument advanced as regards the annuities may be expressed as a dilemma; either the whole system of debt settlements arising out of the War will stand, or it will fall. If it stands, we shall presumably receive during its continuance as much from Germany, France, and Italy as we shall pay to the United States. If, on the other hand, the whole

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system falls, then so much the better for the world at large, ourselves included.

Proceeding to the question of the activity of America in the matter of exports, we sought to establish several propositions. These exports were already formidable in their volume and in their specific competitive character in the years prior to the War. Yet our trade flourished remarkably at that time, in spite of that rivalry. Besides this, these very exports, so far as raw materials are concerned, themselves furnish us with indispensable competitive power in the world's markets, as is most strikingly exemplified in the case of cotton. Next, so far as these exports are manufactured articles, it is by no means true, as we saw in the case of Argentina, that they always compete with our goods: the Americans have their special lines and we have ours. Finally, if we take these exports as a whole, they have performed, especially in recent years, an invaluable service in rebuilding a shattered or dislocated world. Is not this for our benefit? The War itself would have gone wrong for us but for the services which these American exports

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rendered to the Allies, while without them the economic recovery of Europe would have been either impracticable or would have been indefinitely delayed.

In this chapter and the succeeding ones we must proceed to apply the same method of judgment to the other items in the account. Having dealt, so far, with the first two of them, we must now examine the incidence upon us of the American policy in regard to their Tariff, in regard to Mercantile Marine, and, finally, in regard to their Monetary Policy.

Many experts are wont to refer to the Customs tariff of the United States in somewhat exaggerated, or even incorrect, terms. Even in the popular parlance referred to in the course of Chapter I, the existing duties are sometimes described as "The sixty per cent. tariff." Yet, as a matter of fact, about sixty-five per cent. of the total goods imported at the present time into the United States come in free of duty.¹ This is because the manufacturers of America need huge quantities of

¹ This is the figure stated by President Coolidge in his Message to Congress of December 6, 1927.

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foodstuffs and raw materials, such as rubber, silk, coffee, sugar, wool, tin, and so forth, which are admitted generally free of charge. Next to these stand the articles on which duties are laid, consisting, as to 23 per cent. of the total imports, of luxuries and agricultural products, while the balance of 12 per cent. is made up of purely manufactured articles. The total yield derived by the National Treasury from the existing tariff is over £120 million a year.

It is unfortunately true that the British goods entering the United States are not of the tax-free order, and therefore are exposed to the tariff just described. Hence the products of our basic industries cannot hope to enter that market in any large volume. For American ship-building is itself hard put to it to live; their iron and steel industry is adequate to supply domestic needs; they do not depend upon our coal; and they are themselves competitors abroad in the field of engineering. How, then, can our basic industries hope to overcome such obstacles? It is impossible on any serious scale.

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Add to this consideration that the novel selling methods so characteristic to-day of American business, whose universal aim is to maintain a continuous flow from the factory to the retail counter, have, as their method and principle, the standardisation of consumption and the elimination of individual taste. The current of domestic manufactures thus fills the local market brimful, and leaves no inlet which the British importer can aspire to fill. Again we ask, how can our manufacturers override this further difficulty, or rather the double obstacle of a stiff tariff at the frontier and of a perfectly supplied home market?

In a recent report of the Department of Overseas Trade some answer to this seemingly unanswerable problem is indicated. "As the prosperity of the people advances, a constantly increasing number of consumers revolt against the mass product and develop a desire for novelty and quality, for something out of the ordinary run of articles, once luxuries, but now in common use by a large proportion of the population. It is principally in catering to this desire that imported manufactured

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merchandise can make appreciable headway. These staple products of the domestic industry, highly standardised and protected by a stringent tariff, hold the field securely in their particular lines. Distribution, service, time payments, advertising salesmanship, etc. have been developed by domestic producers to such a degree that an imported article cannot compete, unless it is something different from the ubiquitous standard commodity. The import trade in manufactured articles has therefore come to be known as a 'luxury' trade, but a more correct term would be a 'quality' trade."

"The reputation of British goods for quality and workmanship helps them to find a ready sale in the American market in spite of prices necessarily much above domestic prices—in spite, also, of strong competition from other European nations producing novelty and quality goods, which, favoured by depreciated exchanges, have been able to procure a wide foothold. There are many products of British manufacture that stand alone for style and quality. This particularly applies to men's

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wearing apparel. . . . Similarly, other specialities of British manufacture have undoubted preference, among which are cotton cloth, linen goods, sporting equipment, pottery, leather and leather goods, cutlery, smokers' requisites, glass and glassware, stationery and food specialities. . . . A market, limited as it seems, has therefore continual possibilities."¹

An issue here arises of high importance for our particular theme. Modern American industry has been founded on the theory of the infinite malleability of man. Mass production is to make, mass production is to sell, not so much the goods that you want as the goods which you ought to want. The "high-pressure" salesman knows to perfection the art of "crashing in" upon you. What can the housewife do, when there is an army of 30,000 "chain groceries" mobilised against her from the Atlantic to the Pacific, each "chain" composed of whole battalions of shops, with their militarised groceries presenting arms at her door? Or what soul of freedom can be

¹ *Report on the Economic Conditions in the U.S.A.*, May-June 1927, Department of Overseas Trade, pp. 68-9.

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left in screw-drivers when the Department of Commerce has been implacably urging since 1921 that all screws of the same size should be interchangeable?

In order that mass production and mass consumption may operate, the further plan has been adopted of selling as much as possible "on tick." The value of goods sold annually on time payments is best estimated at £1200 million, and the amount of instalment debt outstanding at a given moment is calculated at the gigantic figure of £550 million. "Buy now and pay in a year"—this axiom evidently adds enormously to the influence of the seller over the purchaser, as long as times go well.

Thus, by a strange inversion of the old order, it is the purchaser who is weak and the seller who is strong. The purchaser, the public, barred in behind the tariff, buys as he must and what he must, though this necessity is sweetened and smoothed by the instalment system. Like a tourist at an hotel restaurant, he can only accept with resignation the menu handed to him by the head waiter. But

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suppose he wants to order some *recherché* dishes of special quality? Then he can arrange with Great Britain, the old-established restaurant over the way, with its superior and choice cuisine. That is why, after India and Australia, the United States normally stands third as the purchaser of our exports. Let us examine the facts here a little more in detail.

In fine cottons the American market is worth about £6 million to us annually. This is in spite of the recent depression in that market, of the intense competition of France and Germany, and of the fact that, as always in the past, it is the New England textile industrialists who are the keenest and most resolute advocates of high tariff rates.

Turning to woollen goods and apparel, the United States market in these may be appraised as worth to us £6 million, since we can manage to insert through the meshes of the tariff a considerable variety of manufactured and semi-manufactured goods. "British woollen and worsted fabrics enjoy a very high reputation, and, even in the troublesome year of 1926, showed hardly any decreases compared with

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the previous year's importation. So far, there is no appreciable foreign competition with British woollens in the United States market. France and Germany both sell a certain quantity of piece goods, but the French share is less than one-fifth of the British shipments, and the German share about one-eighth. . . . A good deal of controversy has recently arisen regarding the supposed conservatism of the British manufacturers in regard to style and design of cloths. The demand in this market is for novelties, and it has frequently been asserted that British manufacturers lack originality in this direction. There is no evidence to support the assertion, and it may perhaps have its origin in the desire of competitors to damage the competitive position of British clothes. . . . The best-class British hosiery has an excellent reputation . . . with a stock of the best English products available on this side, a greater consumption of such articles can reasonably be expected." ¹

As regards leather and leather goods, Great Britain actually shipped a greater quantity to

¹ *Report on Economic Conditions in U.S.A.*, above cited, p. 74.

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the United States during 1926 than in the previous year. "British leathers are sold mainly on account of their superior quality. . . . British leather footwear is making very satisfactory progress in the United States market. . . . In fancy leather goods it is only in the higher grade articles that British manufacturers can compete, but the reputation of British quality products stands high, and they will find a market in spite of relatively higher prices."¹

It would be superfluous to continue this enumeration through all the vast number of items which together compose the British exports into America. The same tale is everywhere repeated; huge tariff rates fought and overcome by superior quality. The efficiency of Britain wins the day.

As regards the future, the observation of our Commercial Counsellor at Washington should be noted. "Although the tariff as it now stands very largely precludes the possibility of a substantial volume of trade in the great mass of industrial products, experience gained

¹ *Report on Economic Conditions in U.S.A.*, above cited, pp. 78-9.

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from personal observation induces a definite conviction that good prospects exist for an expansion of the market for the high quality products of Great Britain . . . with the diffusion of prosperity throughout the great industrial centres of the Middle Western and Southern States, very wealthy communities are growing up which are likely to provide greater scope for the quality products of Great Britain . . . in the hinterland there are many prosperous cities whose possibilities as regards imported goods can hardly be exaggerated.”¹

We are now beginning to see the American tariff in its true relation to our theme. Is it a great evil for us? Undoubtedly. Common sense can say no other. Nevertheless, it is one of those evils which we can combat, and which even, in some sense, carries its own remedy. For, if its corollary is mass production, and if mass production will never win the world, the opportunity is afforded us of securing our industrial ascendancy. Mass production was admirably suited to the War era, which, let us hope, now lies behind us,

¹ *Report on Economic Conditions in U.S.A.*, above cited, pp. 94-5.

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but it will never win the commercial race. For, as the world grows richer and more various in its tastes, it is the quality of Great Britain, and not the quantity of America, which will hold economic sway.

In reply to this it may be argued that the United States are quite prepared, at any given moment, to ban all imported manufactures by yet more ruthless tariff legislation. But, in the way of this, there are arising one or two formidable obstacles. There is, for instance, the plain interest of the farming community. It would seem that if we include not only those actually resident on the farms, who form 26 per cent. of the population, but also their close allies, the inhabitants of towns of less than 2,500 persons, these classes, taken together, still number not far from half the population of the United States. At any rate, the agricultural population, however interpreted, forms a very powerful electoral force.

The prosperity of this class has its focus in the international markets of the world. One half of the exports of America are still produced by them, and it is the international price of

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these products which regulates the price which the farmers receive. These agriculturalists are not too happy now, even amidst all the glowing prosperity of America. The Department of Agriculture goes so far as to estimate that the net cash income of those operating agriculture in the United States fell in the crop year 1919-20 from £1,030 million to only £615 million in the crop year 1925-26. The truth is that the factory has flourished, while the farm has not. This can be explained by mentioning that the purchasing power of agricultural commodities, taking an index of 100 for 1913, had fallen so low as 82 in 1927. How is it conceivable that persons already experiencing this fall can desire that their purchasing power should be depressed still more, as it must be, if, thanks to the rise in the price of manufactures due to enhanced Protection, their agricultural produce inevitably fetches less? Clearly, Protection cannot protect the exporting farmer who sells on the basis of the world price. It can only penalise him when he comes to buy his required goods. As it is, we even read that "The number of

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abandoned farms is reported to be increasing, and trade conditions in small towns depending on rural communities contrast strongly with the flourishing business of large cities and industrial centres. Thus the disparity between the relative position of the farm and the factory is sharply emphasised.”¹

The hard fact appears to be that, although only about one-third of the cultivable area of the United States is in full use, there seems to be an arrest of development in this matter. It is estimated that the condition of things is such that the total farm population in 1927, including farmers, farm labourers and their dependents, has fallen by 3 million persons since the year 1920. The Industrial Conference Board calculates that the average return on capital has latterly been only $1\frac{1}{2}$ per cent., and that the average farmer in the last five years has had, apart from the food, fuel and shelter supplied by the farm, only £34 per annum for all his other costs, including the education of his children. How can such persons favour their own destruction by the

¹ *Report on Economic Conditions in U.S.A.*, above cited, p. 25.

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agency of an increased tariff imposed upon the £1,200 million of the manufactured goods which it is estimated that they buy?

With reference to this topic the President of the United States, in his Message to Congress at the close of 1927, expressed some startling views. After acknowledging that "Agriculture has not fully recovered from post-war depression" he went on to declare that the main problem for solution is how to deal "with a surplus of production." He recommended that "the most effective means of dealing with surplus crops is to reduce the surplus acreage," and this was to be best accomplished "through banks and others who supply credit, refusing to finance an acreage manifestly too large."

This assuredly is a very singular proposition. It consists in an assertion that there are not too few, but actually too many, farms in operation, and that the banks of the United States are to be invited to reduce the national production of food by restricting credit to the farming community. One would think that if the Federal Reserve Bank system were to lend

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itself to this policy, its prospect of survival would not be very bright.

But it is argued that any dislocation of the agricultural industry is well worth paying for, on the ground that business is stabilised by the tariff, even if agriculture be not.

Never, surely, should American industry have been more stable than in these apparently golden years. And yet we read, according to the official returns, that, "even in the years that show returns apparently the most favourable, a large percentage of the industrial and business organisations of the country reported no taxable profits at all."¹ In the year 1923 some 41 per cent., and in 1925 some 40 per cent., were in that situation. The explanation appears to be that the keenness of internal competition has been proving too strong for multitudes of the smaller concerns. For, while progressive economies in production and expanded sales, together with some curtailment in distributing costs, have brought prosperity to the larger concerns, "the weaker units are at present finding the

¹ *Report on Economic Conditions in U.S.A.*, above cited, pp. 15-17.

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competition of the larger companies exceedingly severe; the rate of mortality among the weaker companies is relatively high and the earnings of most small concerns in nearly every line of industry comparatively small.”¹ Dun’s Index of Insolvency reported that, in the first five months alone of 1927, there were no less than 10,403 mercantile failures, or a rate of mortality of 24,000 a year. Yet, according to the Presidential Message at the close of that year, “the country as a whole has had a prosperity never exceeded,” and a period of “comfortable prosperity” was foreshadowed. Yet the defaults of small businesses were on an extensive scale.

Again, although there can be no question of the vast prosperity of big-scale industry, since, as we have shown, every conceivable factor has combined since 1914 to promote it and no such exceptional circumstances can have arisen before, nevertheless, when we think of American industry as stable, we must recall that, even as recently as 1920, the unemployed persons in the United States were reckoned as

¹ *Report on Economic Conditions in U.S.A.*, above cited, p. 17.

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5 million, or over, in the slump of that year. And, even in the boom times enjoyed since then, there is reported to be an immense standing army of unemployed numbering some 1,500,000 persons.

“There is a widespread idea in England that unemployment is almost non-existent in America. Nothing could be further from the truth. Fewer men may suffer from long-continued unemployment than in England; but an enormous number of workers are constantly passing into and out of work. Exact figures are unobtainable, because there is no system of registration such as we have. But the Industrial Conference Board—a very competent body of the highest standing—estimated that the average number of unemployed, even in a period of high prosperity, is about 1,500,000—the same number as in a period of exceptionally bad trade in England. In Detroit, the centre of the great motor-industry, the Employers’ Association estimates that at any given moment 15 per cent. of workers in the motor trade will be unemployed. In England we regard 15 per cent. as an

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alarmingly high proportion for any trade. But American methods demand a constant margin of available labour, in order that, week by week, men may be taken on or turned off as required."

"No provision of any sort is made, save by a few very exceptional firms, to support the worker when he is out of a job, whether because he is not needed at the moment, or because he is unable to work owing to sickness or old age. Not only is there nothing corresponding to our system of social insurance, but there is not even a regular system of poor-law relief. The worker is expected to make his own provision against these contingencies. This constitutes a real and substantial deduction from the value of his wages. The social insurance benefits available to English workers are worth a great deal more than the premiums paid for them."¹

We may conclude these observations in regard to the tariff by remarking that the President of the United States has recently declared that "probably no one expects a

¹ *America the Golden*, by Mr. Ramsay Muir, 1927, pp. 65-6.

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material reduction in rates on manufactures"; and he went on to state that this would "destroy our market for imports," because, apparently, of the general havoc which lower duties would inflict upon the whole industrial system of America.¹ This is very instructive, since it assumes that the industrial prosperity of America must rest on an artificial basis. Besides, if even the approach to equality with the foreigner in their own markets would work such a disaster, then it surely must follow that their conquest of the international markets, where they have no advantage either of tariffs or of *locus standi*, will not prove practicable.

The fourth item of those which were mentioned in Chapter I as constituting the economic impact of America was the Shipping Policy pursued by that country. It was indicated that they were evidently very desirous of superseding us on the seas, and, according to the statement there quoted of Mr. Runciman, there was no concealment of this frank and outspoken ambition. "America is building with great rapidity, and her ambition is to be

¹ Message to Congress, December 6, 1927.

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possessed of the greatest mercantile fleet in the world. Her Ministers talk about it, not only as a war provision, but as a peace provision.”¹

Let us observe how far this very natural ambition is likely to be fulfilled in the future.

It is fortunately outside our purpose, which is purely economic, to enter into the Naval, and still less the Military, plans of the United States Government. This is all the more superfluous because the United States is an eminently peaceful people. As the President so well pointed out in his Message at the close of 1927, “it is the policy of the United States to promote peace. We are a peaceful people, and committed to the settling of disputes by amicable adjustment rather than by force . . . while having a due regard for our own affairs, the protection of our own rights, and the advancement of our own people, we can afford to be liberal towards others. . . . Our charity embraces the earth. Our trade is far flung. Our financial favours are widespread.”

The President proceeded to point out that,

¹ Cf. p. 7.

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in the interests of national safety, a formidable programme for the Air Force is being executed, "as fast as the practicable difficulties of an orderly and stable development permit," to be based, it seems, on 900 airports; while the Army is being organized "with a very generous supply of officers . . . in a high state of efficiency and provided with such supplies as would permit of its immediate expansion."

Proceeding to the Navy, the President emphasised that it was also absolutely necessary to possess in the Navy "a weapon of defence. We have a foreign commerce and ocean lines of trade unsurpassed by any other country." Accordingly, in this matter of naval ship-building "we should refrain from no needful programme . . . where there is no treaty limitation, the size of the Navy which America is to have will be solely for America to determine. No outside influence should enlarge it or diminish it . . . wherever our flag goes, the rights of humanity increase."

It may perhaps be permissible here to point out that, so far as the President touched on economic considerations as justifying his naval

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programme, he was not altogether accurate. In the last completed year prior to the date on which he spoke, Great Britain's total foreign trade was £2,020 million, while that of the United States was £1,857 million. Moreover, while all the foreign trade of Britain has to pass across the sea, between 15 per cent. and 16 per cent. of America's trade is overland with her neighbours—Canada and Mexico—so that only 85 per cent. of the smaller American total is exposed to marine risks.

However that may be, a large naval programme was announced; "We need a very substantial sea armament. It needs aircraft development, which is being provided under the five-year programme. It needs submarines, as soon as the Department decides upon the best type of construction. It needs airplane carriers and a material addition to its force of cruisers. We can plan for the future and begin a moderate building programme." Apart from this heavy construction programme, to be defrayed in due course by supplementary estimates, the Executive proposed to ask in the 1928-9 Budget no less a sum than £72,433,000

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for the Navy; and for the Army, excluding non-military items and appropriations for retired pay, no less a sum than £58,266,000.¹ Co-ordinated with these active measures of aircraft, military, and naval precaution, have been the construction and organisation of a Mercantile Marine which shall rule the world. This plan has recommended itself to the public partly on the ground that the Mercantile Marine is a valuable auxiliary arm in time of war. But, besides this, it has proved highly attractive to them from the point of view of economic impact.

It was in 1916 that the United States Shipping Board was constituted for the purpose of developing the Mercantile Marine of America, primarily as a Naval Auxiliary. The Board was given control over all matters relating to the Mercantile Marine, and was given authority to own and operate ships. The Emergency Fleet Corporation was formed to act under the Board for the purpose of active ship operation.

The formation of this Shipping Board was

¹ *The Times*, December 8, 1927.

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essentially a war measure, and it was not intended to create a Government-owned Mercantile Marine. The operations of the Board were at first restricted to vessels suitable for naval or military use, but it soon became evident that all merchant vessels were necessary for the purpose of war. The U.S. Government anticipated a long war, and it was proposed to build, including the requisitioned ships, 2,160 steamers of 10 million gross tons. After the Armistice a number were cancelled, but ships were being delivered up till 1922.

The Merchant Marine Act of 1920 was an attempt to settle the future policy of the Government-owned fleet. The Board was to decide what steamship lines it was desirable to maintain, and then to sell, charter, or lease its ships to private persons who would undertake to maintain such lines on the Board's conditions. The Board still retained full power for the operations of its ships, and the Emergency Fleet Corporation was to continue in existence until all the ships were sold.

The sale of ships to private ship-owners was

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not a success. The size of the Government fleet was out of all proportion to the number of American ships before the War. The ships were mostly built for war purposes, and the prices asked by the Government were too high. Further, until it was possible for American operation to compete successfully with foreign countries, no considerable sale of ships could be expected.

Although it may have been the ultimate aim to transfer this Government Fleet to private ownership, so far this has proved impossible in practice as a whole, though it is true that during the last fiscal year the Board managed to rid itself in one way or another of some 767,000 tons. But the maintenance of a large mercantile fleet owned and operated entirely by Americans is considered essential to national prosperity and to national pride, so that the Government still retained in the middle of 1927 some 940 vessels of 4,756,000 gross tons. The Government therefore have preferred to operate the ships at a heavy loss, rather than transfer to private ownership the business which, under present conditions, they

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are admittedly unable to carry on, except on a few selected routes.

The following are some of the handicaps under which American shipping suffers in comparison with foreign shipping : wages and maintenance costs are higher ; American ships have to carry larger crews ; measurements of tonnage as applied to American ships involve higher dues ; a 50 per cent. duty is charged on all repairs effected abroad. These handicaps, of course, do not apply to the coastwise traffic, which is purely a domestic concern, no foreign vessel being allowed by law to take part in it.

The future of the American Mercantile Marine is attracting much attention at the present time, for the ships, which are mostly war built, are becoming obsolete, and in the near future a large programme of new construction must be commenced.

By the close of 1927 the United States Government is declared to have incurred the gigantic loss of no less than £600 million on this important venture.¹ And this loss has every prospect of a rapid increase, since further

¹ *The Times*, September 15, 1927.

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demands for spending another £60 million on the replacement of obsolete ships have been formulated, and since the running of the whole fleet continues to be unprofitable, though it is represented that the trading losses are tending to diminish. These net annual losses are made good by special appropriations of Congress, though private owners are not slow to declare that the Government should liquidate this huge fleet on whatever terms. Otherwise, the existence of so tremendous an Armada in departmental hands must obviously exercise a depressing influence on the tonnage operated by private persons. But the pride of the nation is concerned, and thus the voice of the industrial and business organisations is swamped in the feelings of other parties.

The President of the United States, in his Message to Congress previously referred to, offered some not too agreeable observations as regards the Mercantile Marine of America. He observed that the Shipping Board had too often yielded to pressure, in order to protect private interests rather than serve the public welfare. This rather damaging criticism was

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followed by a declaration that public operation has not proved a success, since American exporters and importers were alike indifferent as to the use they made of American ships. The vessels still retained should be disposed of—so the President recommended—as rapidly as possible. But, in view of public opinion, this latter desire may probably remain in the category of pious opinions.

What has been the economic impact upon Great Britain of this tremendous attempt upon the part of America to organise an overwhelming Mercantile Marine?

If we study the latest edition of Lloyd's Register Book, we shall note, as already mentioned in Chapter I, that the tonnage of the steel and iron steamers and motor ships of the United States, excluding sailing vessels and Lake tonnage, was 1·8 million in 1914, rising thence, after some considerable fluctuations, to 10·9 million in 1927. If we compare these figures with those of Great Britain, our corresponding tonnage was 18·9 million tons in 1914, and 19·2 million tons in 1927. Looked at from another standpoint, our ratio of these

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vessels was 44·5 per cent. of the world's tonnage in 1914, but had fallen in 1927 to 32·2 per cent.

The reason for this considerable fall in our ratio of world tonnage was due, in part, to progress made by our European competitors and by Japan. Next, it was due to the huge, but unreal, figures of the United States tonnage, which included a mass of shipping either out of commission or else, though potentially available for service, unlikely to be operated in future, except on the occasion of some special boom in freights. It is estimated that, in order to attain to realities, we have to deduct, say, 4 million tons from the American figures, leaving that country with 6·9 million tons of vessels to be considered as effective units. This elimination will raise the British proportion of the world fleet to nearly 35 per cent.¹ This is not all. The age of the shipping is naturally a dominating factor to be reckoned in. Here we find that whereas the world total has a ratio of 15 per cent. over twenty-five years old, the British ratio is only 9 per cent.

¹ *The Economist*, July 23, 1927, p. 154.

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Lloyd's Register Book also points out that, if we go down to realities still further by excluding vessels over twenty-five years old, under 5,000 tons gross, and all the miscellaneous herd of trawlers, tugs, tankers, etc., then the ocean-going fleet of the world amounts only to 24·8 million tons, of which Great Britain owns 9·3 million tons, or nearly 38 per cent. We may reasonably raise this to 40 per cent. by excluding the "scrap-heap" tonnage of America. We also hold our own in the class of the new motor vessels. There are now afloat about 3·2 million tons of these, exceeding 4,000 tons gross. Of these 1·06 million tons are owned in this country, our main rival here being Norway.

No doubt, our Mercantile Marine has many troubles to contend with. It is calculated that there are nowadays somewhere about 130 to 140 tons of space available for every 100 tons of cargo available in international trade. If so, then those who have launched out most deeply into ambitious programmes of ship-building, may not turn out to have done the best.

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At the close of 1927 Sir Herbert Hambling fairly expressed the shipping situation of Great Britain in the following terms: "If we properly consider the depressed industries, we still find that the decline in their order-books is, to some extent at least, due to world factors over which this nation has no control. In so far as the solution of our problem lies within our own control, we have not wholly failed to achieve it. I find considerable encouragement, myself, from the developments I see in the position of the ship-building industry. This important business has been in the throes of severe depression, and has been particularly affected by the infinite expansion of tonnage which occurred during the War, but for which, in times of peace, no adequate use could be found. To-day I see not only a considerably diminished amount of idle tonnage, but also a determination in the industry to reduce production costs, to enlist greater support from its workpeople, and, generally, to increase efficiency. That its efforts are bearing fruit is indicated by the greater activity recently noticeable, and by the fact that, at the end of

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the September quarter, the tonnage under construction in Great Britain and Ireland was higher than at any time since September 1922, and amounted to 1,536,416 tons, compared with a total of 1,537,641 tons in the rest of the world.

“ You will realise, therefore, that this country is building 50 per cent. of the world’s shipping. It is true that the percentage was higher still in pre-war years, but I have no hesitation in saying that when, in the face of keen competition, our country is entrusted with the building of half of the world’s tonnage—work involving the highest degree of skill—there can be little justification for any suggestion that we are ‘down and out,’ and that our craftsmen are no longer 100 per cent. efficient. I think we may rest assured that, if any other country occupied a similar position in the ship-building world, she would proclaim the fact far and wide as evidence of her wonderful efficiency and up-to-date methods, and we should hear little from her of self-depreciation.”¹

¹ *The Times*, November 2, 1927, p. 19.

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This may be confirmed by mentioning that in 1927 the output of Great Britain and Ireland was 53·6 per cent. of the world's output.

Thus the Red Ensign still bids fair to win its peaceful victories with not less renown than in the old days. The path of Britannia is still upon the ocean. Her home is still upon the deep.

CHAPTER XI

THE FUTURE—MONETARY POLICY

IN the last two chapters attention was concentrated on the difficulties created for us by the burden of the Debt Settlement, by the energetic expansion of the American export trade, by the provisions of the Fordney-McCumber tariff of 1922, and by the development of a great American Mercantile Marine. It remains for us now to estimate the future effect upon us of the next and last item of those in question, presenting, as it does, perhaps the most fundamental and most complex problem of them all.

In whose hands will the golden sceptre of finance rest eventually? At the opening of the nineteenth century London assumed the monetary leadership vacated by Amsterdam. Is London, after so brief a reign, to forfeit that title to New York? Or has London aban-

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done it already, as some authorities appear rather hastily to assume?

If we could visualise, by an effort of memory, the course of the sterling-dollar exchange since 1914, we should observe that at the opening of 1915 the pound began to decline rapidly, a descent checked abruptly as that year proceeded to its close. Thereafter, up to the very end of the year 1918, thanks to the adoption of certain measures which need not detain us, the pound remained artificially stabilised at a level somewhat under parity.

Once that point of time was reached, a violent fall was witnessed throughout the year 1919, culminating, during the early months of 1920, in a formidable depreciation of about 34 per cent. From that date onwards the pound, in its relation to gold as represented by the dollar, danced up and down in a sequence of remarkable convulsions up to the close of 1921, though it never descended as low as in 1920. At length, in the latter half of 1921, an upward lift seemed definitely to predominate. There was, indeed, another sharp set-back in 1923. But from the close of the

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latter year the ascending impulse finally asserted itself, until parity was at last regained early in 1925.

If we turn our eyes across the Channel, we shall notice similar movements in the history of the exchanges of other nations. Suffice it that in the recent monetary history of Europe there have been six nations, all neutral during the War, whose currencies remained fairly stable; next, a group of five nations, including France and Italy, whose currencies fell seriously, though the fall was arrested in time; and lastly, there have been eight other nations, including Germany and Russia, whose currency records have registered a complete collapse.

These facts are recalled in order that we may realise that, during a whole decade, from the close of 1914 up to the opening of 1925, the pound, not to mention most of the other European currencies, was in trouble, being sustained during the War by the aid of artificial stimulants, and then, as soon as these were withdrawn, becoming subject to constant attacks of falling sickness.

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The bearing of all this upon the question of the monetary centre of the world is not remote. The world naturally seeks its monetary centre where a stable currency is to be found. As has been shown in an earlier chapter, America, from the earliest days up to 1914, never really adhered to a sound currency policy—a failure that tended to exclude her from monetary ascendancy. Correspondingly, if, during a decade, Great Britain and Europe lapsed from that principle, such a default would naturally tend to enhance the prestige of the dollar.

Nevertheless, we must not exaggerate the permanent effect of all this perturbation. After all, it was when Great Britain herself was in the midst of currency confusions, during the first two decades of the nineteenth century, that she was in reality well on her way to secure the leadership of finance. And next, we must realise that Europe's fall from orthodoxy during 1914 to 1925 is now on the way to being rectified, and that, in particular, the pound is again to be trusted by all.

It must be said, however, on the other hand, that the dollar has recently been relieved from

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an important disability. If we turn to the statutes of the United States, we shall find that the technical provisions of the law up to 1914 were so drawn as to prevent their financiers from organising a Money Market. For, prior to the enactment of the Federal Reserve Act and to certain amendments thereto, the National Banks of America were not allowed by law to accept time drafts drawn upon them for the purpose of financing foreign trade, etc. Consequently, America's foreign trade was financed mainly in London, and there was no open discount market in New York. It was hardly to be counted upon that so strange a provision would be allowed to stand permanently, and this artificial obstacle to an American Money Market has now been removed. Therefore, the present situation is that, the pound has become stabilised, and is, accordingly, once more internationally acceptable; and that, on the other, the dollar side is rendered serviceable for international finance. So far, we perceive improvements secured on both sides, rather than any ascendancy for either.

From this point forward we approach the

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issue of direct competition. As the leading organiser of the New York Money Market has stated in evidence, "There is competition of markets very largely. If the rate at which bills can be discounted at New York is somewhat below the rate at which they can be discounted at London, the tendency of drawers of bills, with facilities for financing the drawing of bills either on New York or on London, would be to draw on New York. If the London rate is below our rate, the tendency would be to draw on London, and the initial competition does not arise in the market where the bill is accepted, but in various markets, all over the world, at the point of origin of this paper, where drawn, in connection with the shipment of goods. I have no doubt if you were on the Malay Peninsula, talking with a producer of rubber who had a large shipment to make to New York or possibly to London, and he had banking facilities in both centres, he would go to the agency of some bank there and say, 'Now, what can I get for a bill in dollars or in sterling,' and he would get a quotation from the bank, which would be largely fixed by the knowledge

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that the bank manager had of the rate at which he could get discount for that bill, either in the London market or the New York market.”¹

The question arises, then, as to which market will be permanently able to offer the best facilities. As to rates, it may perhaps be conceded that, owing to the effects of the War, which have prejudiced us so much more than America, a temporary advantage has been secured by the latter. But with the passing of these conditions and, still more, with the resumption of the tendency of floating capital to seek one level, it can hardly be contended that any permanent advantage should lie definitely either on one side or on the other of the Atlantic. As regards general facilities, it must equally be allowed that the London Money Market is more highly organised than that of New York.

There is, however, another, a geographical, factor which must be allowed its influence. In this case, geography fights on the whole immensely in our favour but, as regards some

¹ Evidence of Governor of Federal Reserve Bank of New York, Stabilisation Committee, House of Representatives, 7895, 1927, p. 319.

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parts of the American continent, works at present in favour of New York. Let us place ourselves in Texas, at some cotton shipping port, say Galveston, and let us consider how their cotton was financed before the War, and how it is financed to-day.

Before the War the buyer of cotton in Texas on account of some Liverpool firm, having secured all the shipping documents, would draw a bill in sterling on his London bank. That draft, under the system of telegraphic exchange rate quotations then operating, would at once be sold by him in Texas to a local bank, so that he could liquidate his debt to the local growers. The Texas bank would attach to the sterling draft, now in its possession, a separate draft for the dollar equivalent, and would post it to its New York banker. The New York banker would credit the Texas banker with the dollars in question, and would then transmit the bill and the documents to its correspondent in London. In London the bill would be accepted and paid.

If, however, we come down to the present date, the finance of the above transaction

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would now be differently managed. The Liverpool firm of cotton dealers for whose account the cotton is purchased might now open a commercial credit through its English bank with, say, the New York City Bank in America. Its buyer of cotton in Texas now, therefore, draws at ninety days' sight in dollars on the New York City Bank, and not on London. The local Texas bank discounts the draft as before, and sends it with the documents to its New York agent, say, the Hanover National Bank. This latter presents it to the New York City Bank, which accepts it, and returns it to the Hanover National Bank. This latter sells the bill to some dealer in bills on the New York market, which dealers in bills finance themselves, most probably, with the Federal Reserve Bank of New York.

Thus London, in this class of transaction local to America, has lost some ground. Let us listen to the comment of the Governor of the Federal Reserve Bank of New York on this new situation. Speaking of the New York Money Market, as it exists to-day, the Governor says: "These bills representing cotton and a

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great variety of commodities . . . aggregate at times from £120 million up to £140 million, and even up to £160 million. It is the best type of paper created in connection with this country's commerce. . . . The result of the development of this market in New York is to transfer the financing of a considerable part of our foreign commerce from foreign markets to the New York market, where it would otherwise not have been financed. In essence it is in the nature, in the aggregate, of a temporary loan, but more or less constant in total volume, varying between a minimum of £120 million or £140 million up to a maximum of £160 million or more, whose function it is to move goods. It has, of course, the effect of relieving European markets of the burden of that amount of financing."¹

As regards the scale of these transactions, the Chairman of the American Bankers' Association has also furnished it as at the date of September 30, 1927. From this it would appear that about £170 million of these acceptances were

¹ Evidence of Governor of Federal Reserve Bank of New York, Stabilisation Committee, House of Representatives, 7895, 1927, pp. 320-3.

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issued and outstanding. About 38 per cent. related to imports and about 34 per cent. to exports, 72 per cent. of these acceptances thus being related to foreign trade.¹

It is evident that we must consider that Great Britain's permanent financing of America's foreign trade as a whole was an advantage which we could scarcely in reason expect to retain.

Nevertheless, even here we need not exaggerate the amount of ground actually lost. In commenting on the ease of money rates, the New York Federal Reserve Bank recently drew attention to the favourable effect that this would have upon sterling, and it went on to observe that this was advantageous to American business, because sterling was still the medium through which a large part of European purchases of American products is made.²

So far we have stated—it is hoped with sufficient fairness—the progress of America in this respect. It must be reasonably acknowledged that, in view of the difficulties inherent in organising a Money Market at such short

¹ Cf. *The Statist*, December 3, 1927.

² Quoted in *The Times*, October 5, 1927.

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notice, most remarkable progress has been made by New York. A former head of the House of Rothschild, when asked for his best criterion for a bill of exchange, replied that it was his tongue, meaning that he could taste by the salt on it that it had really crossed the sea. An eminent French banker, recently posed with the same inquiry, replied that it was his nose which performed that office, thus referring to the smell of the produce against which the bill was originally drawn. These instinctive intuitions have been replaced in New York by the definite and systematic organisation of a Money Market.

In spite of all this progress upon the part of New York, we may perhaps be allowed to accept the verdict pronounced in this matter by the late eminent Chairman of the Westminster Bank, so recently as 1926: "A very large amount, in the aggregate probably some hundreds of millions of pounds sterling, is always afloat in bills drawn on London. There are, in addition, bills drawn on other financial and commercial centres. But none of them approach London in amount. Since the War,

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the Americans have done something to make a rival centre of New York. But the plant of custom is one of slow growth. . . . It is only recently that the custom has grown up of accepting dollar bills and employing them for international purposes, chiefly for settlement between the American countries, other than the United States, and New York.”¹

It will be observed that, in the above quotation, some emphasis is laid on “custom” as exercising weight in this matter. Custom, however, is not too strong a thing to rely upon. Is it only custom that retains the ascendancy of London? That is not—that cannot be—the cause of the continued vitality of such a flourishing organism. Then, is it due to the character, the integrity, the high reputation, of our financiers? Some authorities are good enough so to assure us. “Even the expenditure of the War, our debt to the United States, our unrepaid advances to most of the countries of Europe, and our sales of foreign securities, have not shaken our position. It was thought that, after the War, the United States, the

¹ Walter Leaf, *Banking*, 1926, p. 195.

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greatest of world creditors and the possessors of nearly all the free gold, would become the centre of world finance. But the goodwill, the prestige, the tradition, the reputation, the system, of British finance have restored the old-time channels of credit.”¹ But, even if we lay to our souls this flattering unction, let us also remember that other people must be presumed to be as excellent. At any rate, it is impossible to argue for a moment that the financial leaders of America are not as upright, as energetic, as “100 per cent.” in all things, as the admirable occupants of our own Lombard Street.

The fundamental factor which has secured, and will always secure in the future, the economic fortune of Great Britain is—America herself. The discovery and development of the American Continent made the economic destiny of England. From the date of that epoch this island remained no longer a speck in the Northern Sea, a remote Sardinia, a silent sleeping partner in world events, a node on the sounding board of history. Henceforth, seated

¹ Sir Stanley Leathes, *The People on its Trial*, 1923, pp. 418-19.

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on the hitherto unknown but now ever-developing trade routes between the Old, and the New, World, Britain could become the centre of exchange, of banking, of insurance, of finance, of trade, of peaceful sea power—a purveyor to the whole world of the technical, but essential, distributive services, which, as time proceeds, become ever more important and more lucrative—the natural entrepôt of international business.

All this evolution in our fortunes since Elizabethan days cannot be ascribed to any other efficient cause than the change effected in our situation by the discovery and development of the New World. Sir Robert Peel, in that speech of 1846 which Bright considered to be the most powerful within memory, as from the words, “This night you will select the motto which is to indicate the commercial policy of England,” laid emphasis on the fact that Great Britain’s primary commercial characteristic is that she constitutes “the chief connecting link between the Old World and the New.”¹

¹ *Speeches of Sir Robert Peel*, Vol. IV. p. 625, February 9, 1846.

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So, if America had not existed, we should have been obliged to create it !

All this is not to say that it is superfluous to secure the best possible financial organisation as an adjunct and an instrument of the geographical advantage which Providence has assigned to us. And here we may listen again to the evidence of the Governor of the Federal Reserve Bank of New York. "London has long been the centre of a financial system extending to all parts of the world, for reasons which are not always appreciated in the United States. Not only has Great Britain established a system of branch banking throughout the world, paralleling the British trade organisation, but London has traditionally maintained its position as a banking centre for many years by freely permitting any foreign bank, without legal or other restrictions and limitations such as exist in this country, to open branches in that city. There are to-day probably about seventy foreign banks having establishments in London, in addition to some thirty or more banks of British origin doing

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foreign business, all serving as avenues of contact for the business world with the London Money Market, into which flow bills drawn in connection with movements of goods throughout all parts of the world.

“ London has been a financial centre partly because of free banking in London and partly because of the knowledge that balances in London can instantly be converted into gold at a fixed rate. The assurance of being able to get gold in London has been one of the stabilising influences in world trade. . . . The importance of re-establishing stability, and of doing so in one of the world's principal Money Markets at the outset, cannot be exaggerated. It is the start in re-establishing world-wide stability. It means the elimination of speculative hazards in international purchases and sales of goods which have been a restricting and withering influence upon trade ever since the War started. The determination to resume a free gold market in London means ultimate world-wide re-establishment of the gold standard, and only action by the Bank of England

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to that end could give the world assurance that sound monetary policies would be resumed throughout the world.”¹

Towards the close of these remarkable observations, which Mr. Benjamin Strong, whose position would be comparable to that of our Governor of the Bank of England, thus submitted to the Committee on Banking and Currency of the House of Representatives, it is to be noticed that he posed a wider problem than that of the real, or the supposed, rivalries of New York and London. What seemed to influence him more were the needs of harmony and of co-operation between these monetary centres.

Echoing and reinforcing this attitude, here is the President of the New York Stock Exchange, presumably a practical man also, who comes forward in his recent book with an expression of the same opinions. “I confess that I am not very deeply interested in the question as to which, New York or London, is larger or greater than the other. I am more

¹ Evidence of Mr. Benjamin Strong, above cited, pp. 505-7.

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concerned that both London and New York, as well as the other leading financial centres of to-day, should work in a closer partnership than ever before, to provide a more effective financial leadership in the modern world. There are very great common tasks which to-day lie ahead of us all—the restoration of sound and honest currencies everywhere, the elimination of the needless instabilities of trade and credit alike, and the establishment of strong and enduring foundations for a wider diffusion of wealth, and a higher type of civilisation to come.”¹ What a wide perspective! What great and beneficent tasks to be accomplished in common! But, in our quest for realities, let us seek to ascertain what practical advantages may recommend the acceptance of such a programme as this.

Let us endeavour, by an effort of imagination, to argue the matter not from our own, but from the American standpoint.

It is to be observed that though, as mentioned on a previous page, only about 11 per

¹ *Modern Capitalism and other Addresses*, by Mr. E. H. H. Simmons, President of the New York Stock Exchange.

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cent. of the total manufactured goods of the United States are exported, the corresponding figure is very different in the case of the products of agriculture and forestry. For instance, in 1914 about 29 per cent., and in 1925 about 24 per cent. of these products were despatched to foreign markets. Indeed, on the average of recent years, exports of raw cotton average about 53 per cent., of tobacco 40 per cent., of wheat 25 per cent. of the total product in each case. The international dealers, assembled in London or Liverpool, make the price of these staple articles, which have to fight it out at these emporia with the rival products of a competing world.

For observe the direction and destination of these same American exports. Remark that normally about one-half in value of the entire American exports still go to Europe : in 1925 the exact ratio was 53 per cent., in 1926 48 per cent., the fall in the latter year being only due to a sharp decline in the price of raw cotton. And finally, notice that Great Britain is easily the largest of all the purchasers of United States exports. Indeed, in 1926 the

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British Commonwealth, as a whole, took no less than 44 per cent. of them.

The above-cited facts carry with them tremendous implications in the field of international finance. If we were to suppose that it would be gratifying to the United States to seize the monetary leadership of the world at the price of the collapse of Britain and the decay of Europe, we should be profoundly wrong in our supposition. Some politicians, some publicists, might conceivably take that view. But it is not—it cannot be—the standpoint of the American people itself. Indeed, "one of the great menaces to the trade of a country like the United States is depreciating foreign exchange."¹ One-half of that people, if we include the small towns, are concerned in agriculture, and it is the marginal surplus, not consumed inside America, which makes the price of the whole product, so that their prosperity rests on the international markets. Hence the prosperity of Europe, the stability of the British and Continental currencies, and the due functioning of those economic systems,

¹ Evidence of Mr. Benjamin Strong, above cited, p. 503.

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is of practical, urgent, vital importance for the American public.

We have no need, in order to understand this, to read the Secretary of the Treasury's Report for the fiscal year 1922, in which he pointed out with perfect clearness that the reason for the distress which had recently been felt in the United States was due to the fact that the buying power of foreign countries had been reduced, and that this reduction had endangered or destroyed the foreign market for many American products.

There is another, a purely monetary, aspect of the same question. To keep a money market, once you have got it, is not too easy a task. What was the gist and burden of *Lombard Street*, the classic work of Walter Bagehot? It was that, in the ratio in which London was becoming the financial centre of the world, its situation was growing more risky, more "delicate." Credit, he argued, grows more fragile as it widens, and as the "intensity" of the liability is accentuated: Germany, which deposits in London and suddenly draws out its deposits in cash, illustrates for him our ever-

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weightier responsibilities. So he harps on a situation which is "inevitably frail," although, indeed, one might reply to him, in the language of Ricardo, that there is no absolute security to be obtained under any conceivable system.

Let us turn from Bagehot's old-fashioned qualms to the view of the Secretary of the Treasury, as expressed to-day in his Report for June 30, 1927. The Secretary insists upon the peculiar responsibility of the United States as custodian of half the world's free gold. He proceeds to point out that foreigners have claims of a quick nature upon this gold to the extent of more than £400 million.¹ A "delicate" situation for the United States too!

The Secretary of Commerce, Mr. Hoover, has recently represented the same risk in more direct fashion in his Report of the Department of Commerce for 1926. After pointing out the huge deposits held by foreigners in the banks of the United States, the Report proceeds: "Along with its great expansion as a

¹ Cf. Report summarised in *The Times*, December 8, 1927.

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long-term creditor nation the United States has become a great short-term debtor nation, a deposit-holding nation. This development has upset old-time forces behind our international gold movements . . . large quantities of gold have come to us . . . such gold may silently vanish again," with many results, he argues, upon the gold reserves, credit supply, and prices of the United States.¹

But, if so, then how temporary and how unstable, even how factitious, may be this ascendancy which is based on the fortuitous possession of half the available gold stock of the world ! Assuming that it is desirable to possess such a non-interest-bearing asset of that amount, this asset, it seems, is largely controlled from abroad, and thus the very substructure and basis of American credit itself lies exposed to international influences.

There is yet another consideration which points in the same direction. The monetary system depends, in the United States as elsewhere, upon the banking system which administers and protects it. But what is the

¹ Cf. *The Economist*, September 17, 1927.

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strength of the United States banking system? Can it function permanently without regard to international co-operation? At first sight that strength seems to be so enormous to-day as to be completely above the need of external association.

Cumbrous as the American banking system must be pronounced to be, with its Federal Reserve Board, its twelve Federal Reserve banks, its 10,000 "member" banks and so forth, it is indubitable that during its short lease of life it has achieved remarkable results.

The Federal Reserve Bank organisation was instituted immediately before the War, and the fact that it performed such indispensable work during the War is, of itself, a sufficient proof of the remarkable capacity of its managers. The financiers in question were handed a printed document in 1914 and were bluntly told to open Federal Reserve banks in sixteen days' time, to construct, that is, a Central System not enjoyed by the United States for some eighty years past. That they succeeded so well must be accounted a memorable achievement.

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If, in order to apply a technical test to this observation, we study the American money rates, as they ran both before and after the War, we shall observe something of a transformation. First, the undue spread between rates for different maturities of open-market commercial paper has been much reduced and systematised. Next, whereas before the War there was a high differential between, say, the Chicago money rates and the New York money rates, these irregularities have been ironed out and levelled. And lastly, whereas before the War the seasonal swing of business carried with it correspondingly sharp fluctuations in money rates throughout the year, since the War these have been very markedly reduced. All these facts point one way, in the direction, that is, of indicating a new elasticity in the American credit system under the ægis of the Federal Reserve banks. This is one notable contribution, at any rate, which these banks have rendered, up till now, to the business stability of America.

Nevertheless, when we push our investigations a little deeper, so as to penetrate behind

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this attractive façade, a different condition of affairs begins to reveal itself in the body of the building. The old chaos of laws, the immemorial strife of divergent interests, the conflicting views of distant regions, all reveal themselves to the eye. After the twelve Federal Reserve banks, which stand first in the hierarchy, comes a whole swarm, an entire Milky Way, of other banks, some 28,000 in number. Of these not far from 10,000 are "members" of the Federal Reserve system, while the remainder revolve in the remoter spaces afar. Here is material for confusion, enough and to spare. Again, among the "member" banks there are National banks and there are also State banks, divergently organised under numerous statutes and running in all sorts of orbits. As regards the general conduct of the banks, it seems that in the year 1926, which is usually represented as one of hitherto unparalleled prosperity, there were no less than 956 bank failures, and the mortality among these luminaries is said to have proceeded at a similar rate for the still more prosperous year 1927.

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Again, this system seems to be entangled in somewhat fantastic statutory provisions. For instance, each "member" bank, if situated in a city where there is the head office of a Federal Reserve bank, has to maintain with the latter a reserve of 13 per cent. of its demand deposits, and 3 per cent. of its time deposits: in cities of another type known as "reserve" cities the percentages are 10 per cent. and 3 per cent. respectively; and, for yet other banks in the system, the reserves are fixed at 7 per cent. of demand deposits and 3 per cent. of time deposits.

Again, under the influence of Mr. Bryan, who was holding the office of Secretary of State at the time of its inception, the Federal Reserve Board, which is supposed to supervise the system, became a Board made up exclusively of Presidential nominees, and it was also entrusted with the power of naming one-third of the directors of each Federal Reserve bank. A distinguished American authority informs us that the result has been "almost wholly disappointing," that the most unwise procedure has been adopted, and that "the governorship

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of the Reserve Board was filled by President Harding purely on a basis of personal favouritism, and President Coolidge has made no change." Altogether "a full decade of active operation under present provisions in this respect has left the banking community as doubtful as ever of the true place of governmental control, while students of banking, originally very hopeful of success under the public management Reserve system, have grown more and more uncertain in their own minds with reference to the whole topic." Under political influence it seems that, since 1921 up to the present time, "the Reserve system, and the Board in particular, has been under severest pressure to adjust interest rates," so that "the main object of the Reserve system during the years in question has been the establishment of easy conditions for public financing, rather than the restoration of sound liquid conditions in banking."¹

One of the highest experts in the United States, Professor Oliver Sprague, Professor of

¹ Professor H. Parker Willis, Columbia University, article *The Banker*, October 1927.

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Banking and Finance in Harvard University, has recently stated in evidence that "I feel that the problems of these inferior banks are of the utmost importance for the satisfactory functioning of our banking system. . . . The number of bank failures in those sections of the country has been enormously large. All of the bank failures that were failures of member banks were of institutions that were heavily indebted to the Federal Reserve banks. . . . These seem to me to be matters of the utmost importance in the conduct of the Federal Reserve system."¹

This fundamental factor in the situation of American banking has also been well brought out in the circular of the National City Bank of February 1926. There are, it seems, "28,000 independent banking institutions, organised under the National Banking Act and the laws of the forty-eight States. . . . The Federal Reserve banks are a relatively small factor in the credit situation under ordinary conditions . . . the greatest danger of unwise

¹ Evidence of Professor Oliver Sprague, Stabilisation Committee above cited, p. 413.

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administration of the Reserve system is not from power vested in the Federal Reserve Board, but from the pressure of public sentiment in favour of a 'liberal' policy of expansion . . . 28,000 independent local banks engaged in a competitive struggle for business, most of them oblivious to credit conditions outside of their own localities, are under greater pressure to keep expanded to the limit than the Reserve institutions, which at least are free from the pressure to make earnings."

Thus, here again we are confronted with the fact, this time in a financial shape, which has so often met us in the course of our analysis—keen energies, practical ability, just ideals thwarted in their work by great forces internal to America which are with difficulty to be controlled.

On the whole, we may accept the conclusions of the Vice-Chairman of the Bank of Poland who, in his recent survey of the gold market, deals with the respective qualifications of London and New York from the standpoint of European finance. While New York possesses at the present moment "the largest

THE ECONOMIC IMPACT OF AMERICA reserves" of gold, "London represents the largest production. . . . London is a natural market for Europe by reason of a steady influx of new production, as well as on account of the lower freight charges . . . the London market is not only a market for England, but also for the rest of the world. Any difficulty encountered in withdrawing gold from London throws the buyer back on New York." He concludes that it is of high international interest that London should retain the position which it now holds, all the more because the American market, strong as it may seem to be to-day, has internal embarrassments to face: "a great expansion of internal credit is already noticeable . . . the American market is burdened by deposits of foreign banks of issue totalling £400 million." Hence the American gold reserves are exposed to sudden and serious diminution.¹

We cannot tell whether a sharp rivalry, or international co-operation, is to be the watch-word of the monetary future. But, whichever

¹ Dr. Feliks Mlynarski on "The Difficulties of the Gold Market," in the *Economist*, January 14, 1928.

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it is to be, the preceding survey can only give us increased confidence in the future of "this island which, in spite of all its burdens, has still retained, if not the primary, at any rate the central, position in the financial system of the world." ¹

¹ Budget Speech of the Right Hon. W. S. Churchill, M.P., April 28, 1925.

CHAPTER XII

COMPACT—NOT IMPACT

IN the first chapter the nature of the Economic Impact of America was analysed and defined. In the succeeding chapters its past, its present, and its future consequences for ourselves have been discussed.

During the seventeenth and eighteenth centuries some of the less wise of our statesmen and of our industrialists were animated by too lively an anticipation of the adverse economic effects which American industrialism would exercise upon our fortunes. Hence the enactment of those famous Trade Laws which, for a generation, were wisely allowed to slumber, and then, finally and fatally, were aroused from their trance.

After the establishment of the Independence of the Thirteen Colonies, their economic impact did not develop on the lines anticipated so

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long before. But, eventually, after the conclusion of the Civil War, a new era of unparalleled expansion, on a far wider scale than anything which the world had hitherto witnessed, opened and pursued its triumphant course for a period of fifty years, concluding with Armageddon. Of this epoch it is sufficient to observe that already, in the last decade of the nineteenth century, the United States, in virtue of the volume of its total output, had become the mightiest industrial and agricultural nation in the world. Would not this stupendous growth be calculated to exercise the most marked economic influences upon Great Britain? Such, indeed, was the case.

Nevertheless, these pre-War stresses, painful and disturbing as they proved to be in some departments of our economic life, did not upset us. Indeed, Great Britain, as the link between the Old, and the New, World, and as the live wire carrying the current of international business, was, in sum, advantaged. Up to the year 1914, at any rate, the two peoples enjoyed economic equilibrium.

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The outbreak of the War in Europe coincided with a strenuous attempt upon the part of American statesmen to reform their monetary, their banking, and their budgetary systems, in all of which technical departments of economic life they had been hitherto behind the world. Thus it happened that, when the United States drew the sword in 1917, her internal economy stood ready to be mobilised for external action as it had never been before. On siding with the Western Allies she reaped, it must be said, a truly royal harvest; for these Allies, as their factories shut down, needed manufactured articles, and, as their fields emptied, endless supplies of food. All these requirements, which had sprung into the rank of necessities, were furnished in incredible abundance by America, and were regularly charged up by her, on the basis of strict accountancy, against her comrades in arms. No wonder that the free gold of the world immigrated—a welcome immigrant this time—to the Republic.

As the War concluded, an issue of universal importance presented itself at Washington.

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Should the United States pursue a national, or an international, economic policy?

In the past their statesmen had laboured long and worthily in the latter cause. During the last decades of the nineteenth century the main economic problem had been the decline of the world's price-level under pressure, so some thought, of gold. No nation had worked more actively than America to internationalise that problem: three monetary World Conferences had been summoned, and had sat, at their special instance. As the twentieth century opened, the main economic issue shifted to that of the burden of taxation entailed by the ever-growing armaments of Christendom. In that case, again, America had been zealous to forward the cause of arbitration, and thus to bring warfare within the range of International Law.

As the War ended, the most acute problem in economics was, once more, the currency. This time it took on a more threatening, almost a revolutionary, shape. It was not now a question, as it had been formerly, of the slow modification of many contracts in virtue of a falling price-level, but of the abrupt and

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universal disruption of all contracts, and thus of the structure of economic life itself.

Here again it should be observed that America proved, in a signal instance, her international economic good-will. An ex-Chancellor of the Exchequer has paid public tribute to "the magnificent support given to Great Britain by the Federal Reserve Bank of New York."¹ In fact, as early as 1916, that general co-operation was instituted which in 1925 eventually fructified in the measures adopted for rendering the establishment of our gold standard secure beyond doubt.²

Finally, after the Armistice, when it was realised that, owing partly to the ruin of industry and partly to the rush for luxuries, childhood in many parts of Europe was in imminent peril of death, America joined forces in the noble work of human salvage, with a success ever to be associated with the name of Herbert Hoover. "It is the duty of the West to put

¹ Rt. Hon. Philip Snowden, M.P., *The Banker*, May 1927, p. 381.

² Cf. Evidence of Governor of Federal Reserve Bank of New York, Stabilisation Committee, House of Representatives, 7895 of 1927, p. 502.

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forth every effort to tide Europe over their period of temporary economic difficulties. . . . The resources of the Western Hemisphere must be mobilised.”¹

With such a record behind her, it seemed highly probable that America would now persist in the policy which she had so often, and with such acceptance, pursued before. Nevertheless, from this point onwards she too frequently adopted decisions of a different character.

The United States repudiated the League of Nations, although it was, in effect, of their paternity, and although, despite some doubtful features, it seemed to present the only hope for a broken world.

At a time when it was particularly urgent that the barriers of trade should be lowered, and that the intercourse of the peoples should be set free, they erected, in reversal of the 1913 policy, the Fordney McCumber tariff of 1922.

They who had so long welcomed the immigrants of Europe within their borders now closed, or nearly closed, their gates against

¹ Memorandum of Mr. Herbert Hoover, July 3, 1919.

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them, so that, after manufactures, they excluded men.

When Great Britain proposed that the problems of mutual indebtedness should be settled internationally, they rejected that policy, and insisted on those Debt Settlements of which the Memorialists of Columbia University have exposed "the evident injustice."

It is beyond our purpose to inquire into the causes of this divergence of American policy. Is it that, west of the Alleghanies and in the valley of the Mississippi, new forces gather and old fires glow, beyond the ken of London and beyond the control of Washington?

However that may be, the policy pursued by the United States at this juncture had two important economic consequences for ourselves. First, it produced, or at any rate sharply accentuated, that post-War impact upon us which, as we have shown at length, has taxed us severely indeed, though not beyond our capacity to withstand and overcome it. The other result in question has been of more economic importance still.

Mr. Snowden, writing with all the intimate

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knowledge of a Chancellor of the Exchequer who was himself part of the events which he describes, has explained the steps whereby the City of London, under the guidance of the Bank of England, and more particularly under the leadership of its Governor, has recently been effecting in the world "a great but unseen revolution. . . . The Bank of England, under the guidance of Mr. Montagu Norman, has been the instrument which has brought a bankrupt and commercially-ruined Europe to some measure of financial stability." A sort of financial League of Nations has been slowly organised under British auspices. "For the first time in history a great financial institution . . . has become a world peacemaker and a succourer of the weaker nations. . . . The Bank is therefore in a singular position; it is perhaps the greatest moral authority in the world, and, at the same time, a financial institution of impregnable stability."¹ Thus a policy of economic internationalism has been preferred to a policy of economic nationalism. Can we

¹ Rt. Hon. Philip Snowden, M.P., article in *The Banker* above-cited.

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doubt which is the best for that wide world of peoples who to-day turn their eyes with gratitude and admiration towards the City of London?

If we desire, on so momentous a topic, to bring the above observations to the test, there are two sources of information available. There is the memorable evidence presented in 1926 by the Governor of the Bank of England, by his distinguished colleague Sir Charles Addis, and by Lord Bradbury, to the Royal Commission on Indian Currency and Finance, sitting under the chairmanship of Sir E. Hilton Young. In their evidence, taken together, we can learn to appreciate the economic conceptions which animate those who direct the fortunes of the City of London. "I wish," said the Governor, "to look at this matter internationally, for the moment, because no one thing has more impressed itself on my mind during the last few years than that we are all becoming knit one with another, and that whatever one country does affects all other countries."¹ What has been up till now, and

¹ Answer 13740 in Volume V of the Evidence.

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what will be in the future, the result of these principles of economic policy ?

In his book on the Stabilisation of the Mark, the President of the Reichsbank informs us that, besides being foremost in assisting the banking reorganisation of Germany in 1924, the Bank of England took the principal part in overcoming the many difficulties confronting the sponsors of the plan. The difficulties attending the Dawes Loan might without its assistance have proved insuperable. Mr. Snowden, indeed, goes so far as to declare that "the Bank of England is mainly responsible for the reconstruction of the economic life of Germany, a reconstruction without parallel in history both for its swiftness and success."

In 1923 it was the Bank of England who "saved the Austrian Reconstruction Loan and saved Austria. This was a very remarkable exhibition of financial diplomacy."

Prior to 1924 the financial and economic situation in Hungary was almost desperate, but the intervention of the League of Nations and the Bank of England saved the situation. One has only to glance at the national and industrial

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position of Hungary to-day to realise how great was the work accomplished.

In Greece the Bank of England not only materially assisted that Government but made it possible for Greece to obtain fair terms for the Greek Refugee Loan.

In Belgium the Bank of England took a leading part in the negotiations of 1926 relating to the stabilisation of the Belgian franc. The Governor of the Bank of Belgium has highly eulogised the work accomplished in this matter by the Governor of the Bank of England.

This summary recital is sufficient to illustrate the vast and beneficent influence now being exercised by Great Britain in the realm of international finance. That influence to-day is assuredly immensely greater in its range and purpose than it was in those pre-War years when London could be acclaimed as the monetary centre, and when the Old Lady of Threadneedle Street, divided between her Banking and her Issue Departments, lived her double, yet domestic, life.

As regards the future task that lies before us,

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that also has been clearly outlined in the evidence furnished by the same authorities to the Indian Commission. "The stabilisation of Europe," said the Governor of the Bank of England, "is dependent on having, over a series of years, a certain supply of gold by which those various countries can gradually substitute gold for valuta; never going back, as I expect, absolutely to a gold circulation, but nevertheless, over the years, each one gradually getting a higher proportion of gold against their note issues. That, I believe, is the way in which Europe, and countries beyond Europe, may eventually solve the question of stability, of security of note issues, of prices, and of co-operation one with another—all moving together forward. Many countries are developing in that direction. No one country, I think, has the power to run ahead, to any great extent, of the others. I believe the advantage of the many, as well as the advantage of each one, is that this progress should be gradual and united. These are the general views I would like to put before you."¹

¹ Answer 13740 in Volume V of the Evidence.

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Accordingly, Association not Ascendancy—Compact not Impact—is the watchword of the economic future and the policy of Great Britain.

It is, indeed, argued by some economists that, whatever course may be adopted by Great Britain, the gigantic weight of the United States must tell much more in the economic international balance of to-day and of the future, and that, in virtue of the huge scale of their investments, they will hold, and are already holding, the world in fee. But this is really a misconception, which will not stand the test of the best statistics available.

If we adopt for this purpose the official calculations, for America, of the American Department of Commerce, and, for Britain, the figures of the Board of Trade, as supplemented and interpreted by *The Economist*,¹ we shall find that, in the last seven years, 1920–26, for which figures are provided, Great Britain has added to her net foreign holdings considerably more than the United States has done. This is all the more striking in that these years include our bad year 1926. The summary shows that,

¹ *The Economist*, December, 10, 1927, p. 1022.

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in the seven years, the figures for America record a growth of some £640 million in her net foreign holdings, while for Great Britain the corresponding figure is £860 million.

The situation in regard to ourselves is, therefore, that we are now adding to our net foreign holdings more slowly, indeed, than in the days before the War, but, in any case, faster than the United States is doing.

It is true that, owing to the grievous events of 1926, our returns of 1927 have suffered. Yet, even so, our net shipping income of £140 million, our net foreign investment income of £270 million, our net receipts from short interest, commission and miscellaneous of £78 million—altogether £488 million—exceeded our visible adverse trade balance by some £96 million in that year. It is thus that Great Britain is rebuilding her international economic strength.

Further, when it is argued by some even of our own statesmen, as we have seen in Chapter I, that "America holds a position in export which, for long generations, was held by Great Britain," and that this is "inevitable," and will be so

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“more and more”—then, again, we have to turn to the facts. The facts do not bear out these assertions.

Take any typical post-War year, such as 1925. In that year the United States exported manufactures to the amount of £356 million. But, then, in that same year Great Britain exported £589 million of manufactures. These are the figures compiled by the Board of Trade on the basis of the standard classification of foreign trade laid down at Brussels, and as quoted by the British delegates to the Geneva Conference.

At any rate, we can safely conclude that Great Britain commands immense and increasing international resources, amply sufficient to sustain her economic policy in the world.

Accordingly, when we estimate the results already secured by that policy in face of unparalleled difficulties, the firmness animating it from within, and the favour attending it from without, we must conclude that the place of Great Britain in world economics is not less, but more important, than formerly, and that her future will be even greater than her past.

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