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The Financial Position of the British Empire Compared with that of Germany

BY HON. R. H. BRAND, C.M.G.*

AT a meeting of the Club held on the 27th December, Mr. Brand said:

Mr. Chairman and Gentlemen,—I would like to impress upon you one thing which your Chairman mentioned among the kind references which he made with regard to me and which were quite undeserved. He said that I was speaking here quite unofficially. I want to impress that upon you, because, while it is true that I came out here to deal with another subject, munitions of war, on behalf of the Government, so far as finance goes I am just a private citizen who lives in London. But as I live in the City of London, in the financial centre of the world, I may be able to say something about the subject I have chosen which may be of interest.

I take as my subject a comparison of the financial position of the British and German Empires, so far as finances are concerned. That of course is a very ambitious subject, and I can, in the short space of half an hour, deal with it only in the very briefest outline. But I think that there are certain broad distinctions between the financial and economic position in Great Britain and that in Germany which are worth consideration, which do throw a certain light upon the subject, and which must, in my opinion, if people really understand them, actually affect the life of every man and woman in the British Empire.

There is no need to lay much stress upon the enormous cost of the war. Dr. Helfferich, the present German Finance Minister, in a speech which he made a few days ago, gave an estimate of its present cost to all belligerents. His estimate was about £16,000,000 sterling (\$80,000,000) a day.

*Hon. R. H. Brand has rendered distinguished service to the Empire in various capacities, particularly in South Africa. He came to Canada to assist in organizing for the manufacture of munitions, as direct representative of the Minister of Munitions.

The cost of this huge sum, he stated, was being borne by the Central Powers to the extent of about one-third, and by the Allies to the extent of nearly two-thirds. I think that perhaps is a little generous to the Central Powers. To some extent one can check his figures by others. It is difficult to get at official figures of national expenditure, but we know that England is spending something under \$20,000,000 a day, apart from her loans to her Allies. France, I think (for I am not able to get definite figures), is spending about \$15,000,000 a day; Russia, I think, about \$10,000,000 a day; or a total of \$45,000,000 a day. That would leave about \$35,000,000 a day for Germany, Turkey and Austria. That estimate is probably not far wrong. The bulk of it is spent by Germany. Her own expenditure is no doubt by far the greatest, and in addition she is financing Turkey and Austria. In August last Dr. Helfferich stated that the German war expenditure up to that month had been about the same as the British, and that they were running about level. In all probability they are doing that now, though he now says Great Britain is spending more. The question then is, which Power is likely to be able to last the longest?

If we are to form any judgment about this, there are certain facts regarding the two Powers which it is essential to bear in mind. Germany's population is 68,000,000 as against 46,000,000 of Great Britain. A hundred years ago her population was only 21,000,000; therefore she has increased by nearly 50,000,000 in one hundred years. Since 1871, the date of the birth of the German Empire, she has increased by 26,000,000, while France has increased by only 3,000,000, and Great Britain by 14,000,000. That gives you some idea of the pace at which Germany is developing. She is a very quickly developing country, as far as population is concerned, and of course population is the greatest source of wealth.

Germany's overseas trade has grown at an exceedingly rapid rate, and in 1913 her imports were \$2,630,000,000, of which more than half represented raw materials; and her exports \$2,475,000,000, as against British imports of \$3,295,000,000, and exports of \$2,625,000,000. If you add these figures together you will see that per head of the population Great Britain has an enormous advantage in foreign trade; our foreign trade is about \$120 per head, and Germany's about \$75, so notwithstanding the enormous increase in Germany's trade we are still a great way ahead in proportion to our population.

Then as regards actual national income. Germany's national income—I quote the figures given by Dr. Helfferich in a book he wrote about two years ago, so we may take them as fairly accurate—is about \$10,000,000,000, and her national saving about one-fifth of that, or \$2,000,000,000. Her national income, according to his estimate, has increased 80 per cent. absolutely, or, per head of the population, about 45 per cent., in the past sixteen years. Our national income, as stated by Mr. McKenna the other day, is estimated at \$12,000,000,000 or considerably larger than Dr. Helfferich's estimate for Germany, and our savings are generally estimated as just about the same as Germany's, i.e. \$2,000,000,000. Therefore—and this is the most important point—Germany's national income per head, that is, the annual product of each individual, is about \$145 as against ours of \$260; our individual expenditure is about \$215, as against Germany's \$115; therefore our individual balance or surplus is about \$45, as against Germany's \$30. Owing to different levels of prices the figures are not properly accurately comparable, but they are sufficient to show a tendency. They show that we have a much greater scope both for expenditure and economy in England.

One or two facts indeed stand out. We have a much greater national income than Germany, and also a much greater national expenditure. Although you cannot really make any mathematical calculations on estimates of this nature, yet you can see that our margin per head is greater, and that we ought to be able to go further in economising without doing without the necessaries of life than they, simply because they are much nearer the bone to start with.

I think that the fact that we are so much richer per head than Germany is accounted for by our having got a much earlier start. We have been accumulating wealth much longer, for Germany really started only forty or forty-five years ago. They certainly have done pretty well since they started. Dr. Helfferich estimates that Germany's foreign investments value about £1,000,000,000, or \$5,000,000,000. Ours are generally estimated to be about \$20,000,000,000—four times as big. I think that figure is now too high owing to the great fall in securities, but that has affected German investments as well.

The possession by the British people of great foreign investments counteracts at present the fact that we have a smaller population, because we have a stream of wealth flowing towards Great Britain from these investments without

our working. We are like a capitalist who can sit down and live on the income from his capital accumulated in the past. It has also meant that there has been a large surplus of capital in London. Great Britain has, therefore, always had a large supply of surplus capital to invest abroad, and that has been indeed one of the chief reasons which have made London the financial centre of the world.

But, in addition to her interest on her foreign investments, Great Britain scores over Germany also, and more than ever now, in the enormous payments for freight which foreign nations have to make to her for the use of her mercantile marine. We have these shipping freights, and London, as the financial centre of the world, also receives a great deal of money in the form of banking and insurance commissions. And finally we score over Germany in that we produce in the British Empire between £40,000,000 and £50,000,000 of gold each year. This is a kind of liquid wealth of the very highest value at this moment.

Germany, on the other hand, has to work for all her wealth. She has not this great stream of wealth flowing to her all the time. She either produces her wealth herself, or has to exchange actual goods which she produces for the goods she wants from abroad. England, on the other hand, exacts a sort of tribute from the whole world month by month, for which she need not export anything.

The possession of this large amount of liquid foreign investments is very advantageous in war time, because it means if you can't produce what you want or exchange what you produce for what other nations can sell you, you can sell some of your capital. You can sell your foreign investments so far as they are liquid and so far as others will buy them, and you can buy munitions of war or whatever else you want. It also strengthens British credit throughout the world: if foreign nations know that at the back of the British people is a mass of wealth which can be disposed of, they are certainly much more likely to lend to us than to Germany, which has not this advantage. The Anglo-French loan is an example of this strength. Certainly no other nation could have raised such a loan in the United States. It is by means of the sale of our capital investments that we have paid for the enormous purchases we have made for ourselves and our Allies during the last 16 months.

One or two illustrations can be given of our financial power as compared with Germany's, which present a striking picture of our financial strength. In the first place, notwithstanding

the enormous purchases abroad that we have made and are making, and our huge debts to foreign countries, our exchange—the New York sterling exchange on London—has depreciated only something like 3 per cent., while Germany's Mark exchange, as you know, has depreciated about 20 per cent., and that notwithstanding the fact that she has not been buying as we have. She has indeed been buying very little abroad, and yet, notwithstanding that, her exchange has depreciated 20 per cent.!

Another illustration, still more striking I think, is the question of taxation. While Germany has not dared to impose any additional taxation during the war, notwithstanding the huge interest payments she is incurring on her debt, Great Britain, on the other hand, has almost doubled her taxation. Great Britain's revenue amounted to about \$1,000,000,000. Now, it will, I think, amount to not much under \$2,000,000,000. Thus we have actually doubled the amount of our taxation, though we considered it pretty heavy before the war. Germany, on the other hand, although I see that it is estimated that the interest and sinking fund on her debt which will be incurred by the end of March means something like \$625,000,000 annually, has not imposed a single penny of taxation. How she expects to pay this enormous sum I don't quite know. She had great difficulty about taxation before the war. You may remember she raised a sort of capital tax of £50,000,000 sterling to pay for certain armaments before the war. She had great difficulty in persuading—in fact she found it impossible to persuade—the agricultural party, the Junker party, to accept additional taxes. It is true Dr. Helfferich is beginning to talk about fresh taxation for 1916-17, but he still, I think, relies mainly upon indemnities, which he certainly will never get! (Applause.)

The figures I have given showing the national income per head of the British population compared with that of the German, will show you how it is possible for Great Britain to raise these huge sums in taxation, while it remains impossible for Germany. Her people, what with their huge military effort, and the blockade, and with their small reserve power in the way of accumulated and liquid wealth, have no sufficient margin available for taxation. The figures of our national income, including in that of course what we get from foreign nations as tribute, shows you that we have a much greater margin which the Chancellor of the Exchequer can tap without too seriously affecting the life of the whole population.

The question arises, however, whether this favourable condition in which we were at the beginning of the war, and still are to a great extent, will last indefinitely. It is true that Great Britain has enormous supplies of liquid wealth, but it is also true that she is rapidly disposing of them, and of the best and most liquid, i.e. all our saleable American securities. We certainly cannot be able to get rid of all our foreign securities, for the reason that a great many of them can't be sold, for nobody will buy them, such as our South American securities. The Americans don't particularly want many of our securities, and America is practically the only large market for selling securities. Therefore we shall always have a large income in the form of interest which, with the freights due to us, and our gold production, and our banking commissions, will always preserve to a considerable extent our power of obtaining imports.

At the same time we are, as far as our foreign investments are concerned, undoubtedly living on our capital, and reducing our power as the war goes on. You will have seen lately that Mr. McKenna, the Chancellor of the Exchequer, has now planned the mobilizing of all our American securities, and utilizing them either by selling them, or by utilizing them in some way or other for raising credits. Well, of course, when you have once mobilized your securities you can't do it again next year. Therefore, if you go on living at the same rate, you are faced next year with the same problem over again, but not with the same means of payment. Furthermore, we are now actually borrowing instead of lending, and the interest we have to pay on our loans reduces *pro-tanto* our resources. I saw a day or two ago that New York considers it has bought securities from all the belligerents together to the extent of \$1,500,000,000, since the beginning of the war, including the Anglo-French loan. The bulk of this is probably from Great Britain, and it is clear, therefore, that we cannot hope forever to continue on the scale that we have been doing during the last year. We are in fact being driven, not by a blockade, but by our own huge outlays, and particularly by our great loans to our Allies, more and more into the same position as Germany is in owing to our blockade. We must rely in the long run not on the sale of our capital assets, but on our actual national production, from day to day and from week to week, for the purpose of supplying all our needs.

I gave in Ottawa certain figures with regard to our foreign indebtedness which showed how very large it was. I there

gave, I think, the figures of \$3,000,000,000 as the sum which we might have to meet in the course of the year, either by the sale of our foreign investments, or by the export of gold, or by borrowing or by increased economy. I think possibly that figure was too large. It is impossible to get exact information. I think that the fact that a considerable portion of our loans to our Allies will be spent in England may reduce the figure I mentioned to some considerable extent, and since one cannot get accurate information, perhaps it is better to give no estimate at all. But the very fact that we are shipping away so much gold, and selling our foreign securities so fast, is a sign that our foreign liabilities are very large, and that we are at present living to a large extent on our capital. There is bound to come an end to the time when we can do this at the present scale, and it is wise, therefore, that we should make immediate efforts to live as much as possible within our means, or in other words, on our income. We must rely, as Germany is forced to do, on our own efforts.

Dr. Helfferich said some time ago that Germany was financing herself by her own labour, and that money did not make much difference to her one way or the other. By that he meant that Germany was living on the actual fruits of her production, that the productive energy and economy of the German nation were sufficient to enable it to provide for war munitions, and for its own necessities, out of its actual production from day to day and month to month, getting somehow the food, clothing and other things which they actually produce. And, so long as they are prepared to face the sacrifices involved, they may go on perhaps indefinitely, or till their stocks run so low that they find themselves in want of some vital necessity. Yet undoubtedly Germany is also living on her national capital, letting her plant run down, and her stocks of raw material become exhausted. She is, too, selling her foreign securities wherever she can, and she has got a great deal of money out of territory she has conquered, out of Belgium, indeed, hundreds of millions of marks. At the same time the Germans are practising a great deal more economy than the British have yet. The figures for the German loans, and the vast number of small subscriptions, testify to the fact that the whole nation is economising, and devoting any surplus wealth to national purposes. If England and France, also can become self-sufficing to a much greater extent—and I think the process has begun—they will then have all Germany's advantages, without her disadvantages. They will not be dissipating their capital, and will not only solve their problem of foreign indebtedness, but will be able

to maintain much of their export and import trade, and so keep up the economic production of national wealth at as high a figure as possible.

Germany cannot do that because of our blockade. You see it said that our blockade policy has been a mistake, and that by it we have forced Germany to take those measures of economy and energetic production which we have been unable ourselves to carry out voluntarily. Personally I do not think so. Neither the British people nor the rest of the Empire would have stood our allowing everything to go freely into and out of Germany. The blockade was the only policy conceivably open to the British Government, and it cannot be but that Germany is suffering enormously through it. Any country which imports \$2,500,000,000, half of which is for raw materials every year, cannot possibly have its trade cut off without feeling the pinch very greatly. (Applause.) Take such cases as the supply of cotton, wool, rubber, leather, lubricating oils and so forth, of all of which Germany has been in very great need. With the depletion of her stocks it must be more and more difficult for her to maintain the economic production of wealth, or to keep up her national production to the extent necessary to supply her civil needs and her munitions of war.

Therefore, in my opinion, our financial and economic position is superior to that of Germany, and greatly superior if you add to our own resources those of our Allies and those of the other parts of the British Empire as well. We started with very great advantages, and we still retain a good many of them. But at the same time I consider it only prudent to prepare for a long struggle, and to put ourselves in such a position that we are not suddenly brought up short by finding it difficult to go on buying abroad as we have been doing. If we base our policy on always getting what we have got in the last twelve months, sometime we may find ourselves brought up short. We must put ourselves into such a position that we can go on indefinitely, for the struggle may still be a long one.

I think nothing has surprised most people so much as the huge sums of money which nations can raise, and the length of time they can go on fighting, spending so far, apparently, beyond their resources, without financial and economic exhaustion. If people had studied economic facts of the history of war, I do not think they would find it so very surprising. To go on fighting a people needs only food, clothing and munitions of war. It has often been said that no nation ever had to stop fighting for lack of money. That is not far from the truth. It is not lack of money, but lack of goods,

whether for use themselves, or for exchange with other nations, which forces a nation to make peace. So long as a nation produces or can buy the goods that it requires for the needs of its civil population and for its armies, so long can it go on, if it is prepared to face every sacrifice. In normal times all trade is a sort of barter, and is carried on by the exchange of one kind of goods for another, and each transaction cancels itself. But in war time what a nation does largely is simply to exchange goods against the I.O.U's. of its Government. The Government becomes a huge purchaser, but it does not exchange goods for goods. It takes the goods and simply gives the I.O.U's. By so acting it is, it is true, mortgaging the future, because these I.O.U's. will later on have to be met by taxation out of the future resources of the nation. But so long as the people trusts its Government, and so long as the nation will produce what the Government wants, and will take the I.O.U's., it can go on. There is no reason why it should stop fighting, if it can get enough to live and fight on. It may undergo great sacrifices; it may after the war be faced with national bankruptcy; but if it is prepared to make these sacrifices and, in the words of the German phrase, possesses "the Will to Conquer", or in other words, has the determination to go on, lack of "money" will not make it stop. You can always make money, so long as the Government has a printing press and the people attach some value to the paper the Government so produces.

Of course, as I have said, it is possible that Germany may be brought to a stop by the lack of some vital necessity, but there is no good banking on that. We have to make up our minds to look at the worst side. What we have to do is to increase by every possible means our national production—by the use of women instead of men, by overtime, by the employment of boy labour and so on. And also, we must all economize. Every individual in the nation must economize in such ways as he can. If we do that thoroughly we can bear all our burdens. It means that we must purchase nothing abroad that we can help, and if we do purchase anything abroad, we must get it on credit if we can. (Laughter.)

And what I have said, too, applies not only to Great Britain and France, but to the British Empire also. For it is not only Great Britain, but the British Empire which is fighting, and which is going to win. Mr. McKenna the other day gave an estimate of the national income of the British Empire as \$20,000,000,000. I stated, I think, that his estimate of our national income, that is, of Great Britain, was \$12,000,000,000. Therefore the balance, \$8,000,000,000 represents the income

of the rest of the British Empire. If we take these figures as correct, you can see that the national income of the British Empire is just double what Dr. Helfferich stated that of Germany to be. Therefore, if we can devote all these resources to the war, there can be no question that we can outlast Germany.

But of course it is not so easy to devote all the resources of our Empire to the war as it is for the German Empire. Take the position of India. We are in the position of a trustee for India. It is very difficult to make use of the wealth of India for our own purposes. The whole wealth of the British Empire is in different reservoirs in different parts of the world; and this dispersion makes it more difficult to devote them to the purposes of war, than if they were all under one roof. The case would be different if you could suppose the British Empire federated as closely as the German Empire or the United States. Suppose we had an Imperial Government of that kind, and that Imperial Government made an Imperial loan. Such a loan would be subscribed to throughout the British Empire, and the Empire would have money to buy all the things it wanted, from all different parts of the Empire, without awkward questions arising, as now, of providing exchange. But of course we are a long way from anything like that, and at present we have to do the best we can with the present organisation of the British Empire.

There are two ways, it seems to me, in which the self-governing Dominions of the British Empire can utilise their national income and their resources for the purpose of the war: either they can utilise them on their own war expenditures, which are going to be pretty heavy—and this they are freely doing—; or, secondly, if they have other resources available—and on this I express no opinion—they can establish a credit for Great Britain, for the purpose of paying for goods, whether food, clothing or munitions, obtained in their country. Canada has already done this. She gave us a magnificent credit as you know, of \$50,000,000 the other day. Whether the other Dominions can follow suit, or whether Canada can take another step of the same kind, I do not know. My knowledge of Canadian conditions is certainly nothing like complete enough for me to say. But in England we are satisfied, and always have been, that everything that can be done will be done. (Applause.) Canada has for a Finance Minister, as everybody knows in Toronto, a man who is thoroughly versed in all these problems, and who seems, if I may say so without impertinence, to combine the two qualities of caution and courage, required in a situation like this. Every

financier should have caution, but courage is a much rarer quality and one particularly needed in war time, because in war one may be driven to take all kinds of steps which one would never dream of in peace.

One thing, however, I think an Englishman, who has had experience of the past sixteen months in England, is able to say, and that is, that in Canada, just as in England, the power of the community to finance the war, and to bear whatever burdens the war makes necessary, depends in every community in the last resort not on the Government, or on the banking or financial institutions, but on the people. If the whole community, by its energy and production, and also by its economy, provides itself with a surplus of income over expenditure, then that wealth is available for the war. That energy and economy will put the banks in a position to do whatever may be required; but if the community goes in for large expenditures, whether Dominion, Provincial, Municipal or private, which are not absolutely required, then of course the surplus is lessened, and the community is less able to provide money for the requirements of the war. The banks can do what they would like to do only if their assets are liquid, and that depends in the long run on what the people do, and not so much on what the banks do.

I venture to say this, because it strikes an outsider that Canada is in rather a dangerous condition, somewhat like that of a man who has just come into a large amount of money. She has recovered to a great extent from the shock of the outbreak of war, and is prospering because of her abnormal harvest, and because also of the large munitions orders. But unless Providence is very good to you, it is hardly reasonable to expect as large a harvest as this one again next year, and the war orders are obviously temporary. It seems to me advisable, therefore, for people to recognise that both these causes of prosperity are ephemeral in nature. The Canadian people would be wise to take advantage of this spell of prosperity not to indulge in extravagance, nor in launching out into new schemes of development which are not absolutely necessary or immediately reproductive, but to conserve their resources in every way possible. The burdens on the British people in the way of taxation are huge. Therefore they are going to be faced with the necessity of economising in every way possible, much more than many of them relish. If other parts of the Empire could help them in any way financially, that help would be of the utmost value to them. But the power of the Dominions to do that will be directly determined by the productive energy and economy of their own citizens. (Applause.)