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## The United States and the Present War

BY MR. ALEXANDER DANA NOYES.\*

AT a regular luncheon of the Club, held on the 1st February, Mr. Noyes said:

*Mr. Chairman and Gentlemen,*—I appreciate the opportunity to speak to those who I believe understand our feelings on the other side of the line, as I hope we understand yours on this side of the line. Your chairman has said that I will speak on the economic aspects of the war, and I expect to do so. I shall not begin, however, by speaking of that aspect of the war, because in any discussion of this war there is something else that must come first. A couple of months ago, at a dinner similar to this held by the large Economic Club in the city of New York, where there were about a thousand guests in their seats, the same topic exactly was assigned for the speakers. The committee at the last moment, moved with doubt as to whether somebody's feelings might not be hurt, laid down the rule that nothing must be said about the merits of the war question in general, or concerning American sympathy as between the belligerents. As a result, one speaker talked of the need of larger American armaments, another of what Germany was trying to do, another of the business outlook. The members felt they had been treated to a sham discussion. I have no intention of making the same mistake here, because there is no danger of treading on anybody's toes. Gentlemen, I have no need to assure you in the first place that the real public sympathy on the other side of the border is with the Allies. (Applause.)

My distinguished host, Dean Massey, this morning on opening his paper and reading of the German submarines' raid on British steamers yesterday remarked to me, "There is bad news to-day." Then at once he apologized for assuming that my point of view was the same as his. I reassured him by telling him that in New York, and in every other city of the United States with which I am acquainted, precisely

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the same thing would be said by any citizen of American birth and education of the same news, whether he discussed it on the street cars, at his club, or in his business office.

On the other hand, you know, of course, gentlemen, of what has been called the German-American demonstration. It is of a peculiar sort. In many respects, you can hardly quarrel with the fact that German-born citizens retain to a certain extent their sympathy with what they call the Fatherland. But that this is universal, even among German-American citizens, is not true. I know many of the second and of the third generation of German blood who do not maintain that attitude. A very large proportion have no sympathy with the public demonstration of those whom President Wilson described to their faces as "hyphenated Americans." I understand the feeling of German-Americans who thus dissent. It is not proclaimed upon the housetops. They leave that to the hotheads. You have heard intimations, this past week, that the matter will be carried into politics at the next election, and that no candidate will receive the votes of German-Americans unless he makes plain that he abjures good feeling towards Great Britain. That this is nothing that will come to anything, gentlemen, I am convinced. But if it were to amount to anything, there is nothing that would be more sure to bring about the absolute solidifying of the American citizen's vote, and it would mean the overwhelming of any candidate who would dare to take such a stand on such a platform. (Applause.)

This peculiar lack of tact, lack of a sense of proportion—you might almost say lack of the sense of humor—has been visible throughout the whole war episode. How long before the war began, the ambassadors of Germany at foreign courts were busy in putting their country into a state of diplomatic isolation by displaying the same qualities, you know. Mr. Ferrero, brother of the eminent historian and New York correspondent of the *Corriere della Sera*, has lately told an incident of how, when Italian neutrality was hanging in the balance, the correspondent of one of the principal Rome papers approached Count Bethmann-Hollweg, and inquired what his attitude was towards the question of Italian neutrality. The Chancellor replied, with a pleasant expression of good will towards Italy, that he was entirely satisfied; because if Italy had gone to war on the side of Germany and Austria, the Allied fleets would have attacked Italy on both coasts, so that the war might easily have begun with a defeat.

The admirable tact of such a reply may be judged. (Laughter.)

We have seen incidents to the same effect in the remarks made by Count Bernstorff, so much so that Count Bernstorff is considered an asset of the Allies. (Laughter.) You remember how, when it was rumored that the Germans if victorious meant to seize Brazil and defy the Monroe Doctrine, Count Bernstorff calmly answered No; Germany had given assurance that she had no present intentions toward Brazil; adding, however, quite casually, that she might occupy Canada. And this wholly uncalled-for remark I believe has had a great deal to do with the growing feeling at the present time that we had better increase our armament. (Laughter.)

At the outbreak of the war, or shortly after, the Deutsches Theater in New York, where classical German pieces are presented for German-American citizens, was to be opened for the season, and the question was, what play should be chosen fitly to represent the occasion. I think you will appreciate the force of their selection—it was "Wilhelm Tell." (Laughter.) All of you gentlemen who are familiar with the story will recall who Tell was and what he did, who Gessler was, what happened to Gessler, and why it happened to him. You will appreciate the humor of producing that play at the opening of the war, at the beginning of the invasion of Belgium, in view of the position at the present time of Germany and Austria. Not least interesting of all, the Austrian as well as the German flag was draped on the proscenium at this representation of an Austrian tyrant invading a little neighbor state in defiance of neutrality, and shot by a "sniper" of that country. That the United States people should have formed its opinion on this war in the way in which it has formed it, ought not of itself to be surprising to the intelligent observers. But the immediateness, the promptness, with which the United States made up its mind was the most remarkable spectacle I have ever seen. One instance in connection with this is that notwithstanding the positiveness of our decision we have preserved our equilibrium; we have not lost temper with Germany. We are willing to discuss the question, feeling sure of our own position. On one point only have we tended to lose it—when we are informed that we are not familiar with the facts, but are simply misled by English lies. Now we are pretty well aware in the United States what was the basis of our decision. To sum up the grounds briefly: they were Bethmann-Hollweg's speech to the Reich-

stag regarding the invasion of Belgium; the undisputed testimony of the contents of the English White Paper; the admissions and suppressions of the German White Paper regarding the relations of Germany and Austria; the published proclamations of the German army authorities in Belgium regarding the imposition of tribute on undefended cities and regarding the burning of towns and holding of citizens to ransom in revenge for attacks by civilians.

Now, to go aside from the conclusions as to the merits of the general question drawn from these matters of information, one may imagine, I think, the hot indignation of our people, whose farmers at Lexington were "snipers," who knew that the exaction of war tribute during war was contrary to the Hague Conventions signed by Germany herself, and who have read in the *Staats-Zeitung*, the chief pro-German newspaper in the United States, at the time of the sacking of Louvain, the editor's signed opinion that all the treasures of art and learning in the invaded district were not worth the life of one German conscript.

We observe, gentlemen, that all this information is based on undoubted authority—in most cases on undoubted German authority. When, therefore, we are suddenly confronted with the angry assertion from German royalty, from the German Chancellor, from Professor Münsterberg, from Dr. Dernburg, from the German newspapers in New York—even in private correspondence from Germany—that we of the United States do not know the facts of the case and are misled by the lies of England, what in the world are we to answer? Well, what we do answer is that we not only have not framed our opinion as a result of falsehoods or misrepresentations by interested parties, but that we have been so sure of our facts as to escape entirely the influence of some most remarkable misrepresentations and falsehoods by interested parties, not on the side of England! (Hear, hear.)

That this is not an expression of prejudice, will be evident from this: We know, and it is hard to see how the German people should not also know, that the Belgian invasion has been officially explained by German authorities in six separate and mutually contradictory ways: Belgium withheld a cargo of wheat from Germany. Germany knowingly violated international law, and would pay later for it, but had to do it for her own advantage. French soldiers had entered Germany, though not Belgium. French soldiers had entered Belgium, though not Germany. (Laughter.) France would have invaded Belgium if Germany had not. England would have

done it if Germany and France had not. (Laughter.) Since every one of these six explanations but the last, after having been officially asserted, and after having come to us from purely German sources, has been abandoned, the inference is that certainly five of them, and probably six, were very impudent efforts made to influence the opinion of the outside world by German misrepresentations. We are all familiar with the German answers about the cathedral of Rheims. In the first place, it was not fired on. Second, it was fired on because there was a gun in the steeple. Third, there was not a gun in the steeple, but it was fired on because there was a man seen in the steeple making observations. The mind of the United States was made up on the evidence, and that is the reason why the mind of the United States will not be changed. It touches us very closely, and moves us to positive and very vigorous resentment, when the accusation is hurled upon us that we are misled by the falsehoods of England.

So much for the question of American sympathy. I am aware, however, that I was asked in the first place, gentlemen, to speak to you on the economic aspects of the war. I should begin by saying that he is a bold prophet who will predict in any detail what are likely to be the economic effects of the war in America. The entire economic history of the war to date has defied precedent and confuted prediction. We are dealing with new precedents, making new history; we have no parallel case to refer to. The nearest approach to the military and political condition of the world now was of course that in the time of the war between Napoleon and the Allies, a hundred years ago. But the machinery of modern finance and commerce had not then begun to grow up; the credit machinery which has been the core of the problem did not then exist.

As to the ideas which were held on this matter before the war, one might say that the banking world thought such a war as the present one was impossible, because the results would be inconceivable; also, that if there were such a war, it would mean nothing short of the entire collapse of the financial system of the world. Though this was not the actual result, yet we can see how near we came to it. We know how in August we were threatened by the greatest financial panic in the history of the world. For three days the world's financial heart ceased to beat, and for three weeks the world's commerce stopped. We did not realize the worst expectations, because the panic was stopped at its source and thus held in

check. How the world at large emerged from that situation we also know. It had seemed that three things would be inevitable on the outbreak of war: first, the general suspension of great financial houses, faced with insolvency because of their intimate relations with the enemy's markets, and therefore unable to call in their credits; second, the outpouring of holdings of securities of neutral States, in such amount as to crush all markets, dislodge all collateral against loans, and break down the credit of the neutral States; third, such prodigious increase in price of capital by new loans (English and German) as to lower by 10, 20 or 50 per cent. the price of existing securities.

Now, at the present time we know, gentlemen, that none of these things has happened. After the worldwide panic, for a few days in August, the authorities of practically every up-to-date financial country in the world, on varying scales and with varying degrees of skill, utilized credit and created facilities so as to restore the financial equilibrium in a way unexampled in the history of the world. The problem of the operations of the international bankers has been surmounted through the advancing of funds by the Bank of England to make good the money owed to those quarters by markets now engaged in war. When England brought out her huge war loan of nearly \$2,000,000,000, the Bank of England, by a very extraordinary provision, engaged to lend to subscribers on the security of those bonds, at a reasonable rate of interest and up to their full issue price, and to leave the loan standing until the end of the war. (Applause.) The motive for realizing on all other securities was removed, and prices on the stock exchanges are generally back where they closed when the Exchanges shut down at the outbreak of the war. There has been no acute embarrassment abroad; no general liquidation of foreign obligations. Trade has gone on in England, and in most other countries—not at the former activity, but in very fair magnitude.

The experience of Canada and the United States has been most extraordinary. I can speak most surely for my own country. You will remember that the foreign exchange rate, whose normal maximum is \$4.89, went to \$7 in August, and stood at \$5 in the pound as late as October. The feeling of the moment was that our reserves of gold would be drained, and our banks left absolutely helpless. Nothing like this happened. Our New York City 6% bonds, issued at par with a view to raising funds to meet foreign obligations, are selling now, instead of on the 6% basis, at something like

4½%. The "gold pool," organized to provide such gold as was necessary up to \$100,000,000, to export to Ottawa to the charge of the Bank of England, has dissolved without calling for the whole of the fund subscribed. By December our export trade had risen by such leaps and bounds, partly caused by the enormous demands of the war, that whereas our October exports were \$76,000,000 less than in the same month of 1913, the exports of December were greater by \$13,000,000 than a year before, and the January results will probably be even larger.

As your chairman very correctly set forth, we occupy a peculiar position. England is not in a condition to continue financing the outside world on the former scale, while the world must be financed, and so that burden must be borne by the United States. Under the circumstances, it is of the highest possible importance that the United States should take this chief position of economic power. How far the taking up of this burden will or will not interfere with the revival of the purely domestic industries for which we as well as you are hoping, but still doubtfully looking for, and what will be the result after the war, is a problem, which is profoundly difficult.

One may sum up this problem of the future in this way: There are three possibilities, which lead to somewhat different consideration of the problems. The first is the possibility of a short war—that seems now removed from the immediate field of practical consideration. The second is, what would be the experience of the United States and neutral countries in case of a long European war? The third, what after the war is over?

Our experience in a long war would probably involve many advantages, but also disadvantages, in relation to the expansion of trade. But trade is not the only question. In 1907 the eminent French economist, Leroy Beaulieu, estimated that the whole world produces every year, in capital available for investment in new securities \$2,400,000,000. But that sum has been already expended in provision for the first six months of the war; \$1,750,000,000 is the amount of the war loan of Great Britain, and \$1,100,000,000 that of Germany; not to speak of the borrowings of other States. The problem is so new in the world's history that one hesitates to draw positive conclusions from it; certainly it is new in degree, and probably in kind also. When all the estimates made before the war as to the cost—the highest being placed at \$50,000,000 per day—have already been exceeded, and bid fair to be

exceeded, still more largely as the war goes on, and when the full strength of the belligerents is put in the field, how far we must recast our original impressions is a question that baffles the financial imagination.

Probably Great Britain must finance France, and to a large degree Russia. Germany's case is most peculiar. She has enjoyed the advantage so far of being a debtor country to the outside world, and the suspension of debts by the war caused an early apparent increase in available resources. This is the main reason, I take it, why the German Government proclaimed no moratorium. But a situation of that kind is only transitory and temporary. The German Government is approaching a situation now that is different. Sir Edward Holden has called attention, in a London speech, to the paper currency of Germany. The German Reichsbank has suspended gold payments on German currency. An enormous issue of purely fiduciary currency followed, which logically involved a premium on gold. But in Germany, there has been enacted a prohibition against dealing in gold. The fact that prohibition under heavy penalties has prevented open dealing in gold at a premium disguises the nature of the situation to a certain extent. It has, however, shown itself in the perfectly abnormal movement of the foreign exchanges against Germany. That is perhaps only one phase of the problem of exhaustion. Other phases were illustrated last week in the German Empire's seizure of the entire stock of foodstuffs in the country, which are now to be distributed and sold by the Government itself. One might say that a State under such conditions, if isolated absolutely—commercially and economically, as well as financially—from the rest of the world, would be living under the domain of pure Socialism. But no State is or could be thus isolated.

I have been reminded that the question has been already tested once by revolutionary France, where not only was dealing in gold at a premium forbidden, but where the penalty was death. Yet the currency went on that occasion to so low a value on the market as to be purely nominal. Whether this will follow in the case of Germany, one should hesitate to say. But if the statesmen conducting the affairs of revolutionary France were not able to prevent it, it is doubtful if the experts conducting those of Germany will be. As to what the foreign exchanges show, one need only say that if sterling were to sell at such a discount in New York as Berlin exchange is selling now, its rate would be \$4.47, I am aware that the Reichsbank reports \$150,000,000 addition to its gold reserve

since the war began. How was this possible? It may have been that in the patriotism of the hour, the German people came to the Government with their gold and got paper currency instead, knowing that they would not get the gold back. (Laughter.) If they did, it was the first time in the history of the world that such a thing has happened. It is conceivable that patriotic holders of \$150,000,000 gold would have brought it to the Reichsbank all at once, when war began. But precisely how do you account for the fact that the bank increased its holdings regularly, \$10,000,000 to \$20,000,000 a week, during all the period from August 1st to December 31st? I don't doubt the patriotism of Germany, and I do not say I doubt the figures of the Reichsbank: I simply say, I don't understand them. (Laughter.)

What will be the effect on the European situation of the enormous burdens of capital and credit now being piled up, and which will continue to grow while the war continues, and even when the war is over, is a problem we have hardly more than begun to consider. You are familiar with Lloyd George's prediction—undoubtedly reflecting the judgment of Lombard Street. Money will continue easy while this enormous structure of emergency currency and emergency credit stands. But four or five years from now,—I cite Lloyd George again—there will be one of the most trying and difficult situations in its history for every State among the belligerents. But it will take a long time to dismantle this structure of credit. The Bank of England was unable to resume specie payments for five years after Waterloo.

While looking to the after effects on the belligerent and the neutral powers, however, one fact is borne in upon us by the experience of the last ten or twelve years—that the resources of capital are never exactly measured: there is always something, some very large amount, not allowed for in calculations, and when the need is urgent, capital comes forth. We see these things in every war. In our own Civil War, at a time when the home resources for our war loans seemed to have been exhausted, Jay Cooke & Co. made a contract with the government to sell its bonds on commission, peddling them through an army of salesmen, through the whole of the United States, and sold, if I remember rightly, \$600,000,000 worth. This capital was not supposed to exist. At such times capital comes out, I will not say from its hiding places, but from its resting places, in a degree that astonishes those who insist on rule and precedent. There may be a similar relief to the strain this present time.

And you remember Macaulay's description of how the mounting debt, after each of England's wars, was described as a burden too great for the nation to bear. The debt created by the Seven Years' War would paralyze the country. That of the American Revolution would crush it. That of the Napoleonic Wars settled the question. Yet we have seen the rise of England to the highest pitch of prosperity and wealth, not many years after the last and most crushing of these blows. One should not be too hasty in estimating the effects of such a strain on nations, for the resources of capital are never wholly measured.

Now, as to the neutral States, a word in closing. We have in the United States, gentlemen, as you know, some difficult problems to meet, and not the least difficult is the question of neutral trade. As to our own position, we have endeavored strictly to hold to rule and precedent. But the laws of the sea, as the London "Economist" has said, are in rags; the laws of contraband are obscure, and the legitimate interests of our merchants and those of any power which controls the seas often conflict. It is most fortunate that we have at the White House a cool-headed citizen, who is able to keep his hand firmly on the situation that we have committed ourselves to—a man in whom the people as a whole, and I believe the English-speaking people as a whole, have confidence. (Hear, hear, and applause.) Fortunately also, we approach the problem with that strong good feeling toward the English peoples to which I have referred already. (Hear, hear.) Not the least consideration is the fact that the efforts of the German-American citizens have been of that character which usually defeats the purposes of their authors.

There remains a very grave problem—the problem of future armament and militarism in the world at large. You know the prediction has been made that when the war is over, this will be a new world—it will not be the world we were living in before the war. This statement, as to political conditions, I believe is quite true. As to economic conditions, it will quite possibly be a new world in the rise to power of younger countries such as the United States and Canada, outside of the area of the strife. Whether the result can be, as we believed it might be at the start, the putting an end to the enormous and perpetual increase of armies and navies, I do not know; no problem is more difficult at the present time. Certainly it is possible to arrive at the opposite conclusion—that whichever side comes off victorious in this struggle, the burden of armaments may be fastened on the world as never

before. Personally I shall hope, as many of the best thinkers do, for the opposite result. M. Taine, the eminent French critic, considering as long ago as 1890 the possible results of the universal armament, and universal conscription, then being fastened on the world, ventured the prediction that the outcome of that kind of militarism would be a war in the twentieth century which would far supersede in violence and scope any previous war, and would be marked by barbaric practices and cynical disregard of international law, in such degree as was never known in European history. It would be pregnant with other consequences impossible to foresee. I mention this, not only because it is one of the most remarkable predictions of the condition of the world at the present moment, but because it illustrates the perplexing nature of the problem—the question how such a process of universal competitive armament, once begun, can ever be brought to an end. This is one of the large considerations which the real statesmen of the world have still before them. For myself and those for whom I speak, I feel confident that, if the scourge of the increasing armament expenditure of the last ten years were to be ended by a readjustment not now possible to foresee, it would be worth the price for which the war was fought. (Applause.)