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THE WAR IN RELATION TO BRITISH FOREIGN INVESTMENTS.

THE mobilisation of the national resources for the purposes of war has necessarily impaired the capacity of Great Britain to provide for further developments. It is no longer possible to furnish the large streams of capital which normally flow into industries at home and abroad. It is open to grave doubt whether Great Britain is maintaining its accumulated capital intact, whether the wear and tear of plant, buildings, &c., in the country are being fully replaced, and whether British holdings of foreign securities are not being reduced. Information necessary for a final judgment on these points is not yet available, and in particular it is difficult to determine whether, or to what extent, the material equipment of industry within the country is being injured. In regard to capital invested abroad the problem is rather more simple. Movements of capital and transferences of securities from one country to another do not so readily escape notice as do fluctuations in the amount of capital and changes of ownership within the country. When securities hitherto owned in this country are sold abroad, or when securities are bought from abroad, the fact is often commented upon in the newspapers ; and the state of the foreign exchanges is apt to indicate the time when such sales or purchases are likely to take place. More important is the fact that capital for investment at home has in recent years been subscribed for the most part privately or semi-privately ; while capital for investment abroad is usually invited by public advertisement. Further, the returns of international trade may be employed to check and measure the movements of capital as shown in the statistics of new issues. While the time is hardly yet ripe, therefore, to estimate the effects of the war upon capital invested in this country, it is feasible to attempt a preliminary review of the position in regard to investments abroad.

One of the most striking features of the crisis in July last

year was the impetuous rush of bankers and other creditors to call in money lent abroad and to liquidate holdings of foreign securities. The international situation was at first regarded more hopefully in this country than on the Continent, and the London market stood firm, while selling orders for international stocks flowed in, and Continental creditors withdrew such credits as they had in London. But soon London in turn began to call in loans outstanding abroad, securities were passed on to New York, until the general uncertainty of obtaining payment, and the impossibility of effecting a sudden liquidation all round, necessitated the closing of the Stock Exchanges and the introduction of emergency measures to permit of delay in meeting obligations. The breakdown was owing not to any inherent weakness in London itself, but to the inability of foreigners to meet the great claims suddenly made upon them. The process of liquidation, however, continued, though under difficulties, and at a more gradual rate. No payments could be obtained from enemy countries, but elsewhere debtors and borrowers in course of time repaid large sums. This is notably true of the United States. According to the estimate of the Secretary of the Treasury, American business-men and bankers were indebted to London in the sum of approximately £90,000,000 maturing by January 1st, 1915. A large part of this amount was undoubtedly repaid, in the form of gold placed to the credit of the Bank of England in Ottawa, and in the form of foodstuffs, merchandise, and war equipment sent to Great Britain. From some other countries it was more difficult to obtain payment. This applies particularly to Russia, the crippling of whose export trade largely prevented merchants from making remittances. The same circumstances have made it necessary for Russia to borrow for the purpose of paying interest on her national debt and of securing munitions of war.

Again, in South America, inability to obtain further loans and the calling in of credits produced a serious collapse, accompanied by numerous failures and defaults in the payment of interest. Time, the necessity to economise, and the growth of European demand for foodstuffs and other produce at high prices have, however, resulted in a considerable improvement in the financial position of South America. American financiers have recently, too, been able to step into the breach, and grant loans which would normally have been effected through London. It is reported that considerable advances are being made in Argentina, where £8,000,000 to £10,000,000 of obligations are estimated to fall due to Great Britain during the current year. From one

source and another, therefore, but principally from the United States, British capitalists have been able to withdraw large sums. From America, indeed, the purchases of raw produce and manufactured goods have been so large in comparison with the sales of British goods, that the exchanges have moved against Great Britain, and for six months past withdrawals of maturing obligations have been insufficient to prevent the rates from falling below par. Mere withdrawal of loans as they fell due was therefore supplemented by actual sales of securities in New York, after the stock markets had been gradually brought back into working order. At first, sales from abroad appeared to be mainly on account of German and Austrian holders, the exchange rates having become adverse to Germany and Austria at an earlier date than they became adverse to Great Britain. Since the new year, however, newspaper reports indicate clearly that there has been a steady sale of securities by British holders. The securities sold were for the most part American railroads and industrial stocks, but some other stocks are also said to have changed hands. For example, a small quantity of German and Austrian Government stocks, upon which interest could not be received by British holders during the war, are supposed to have been sent to America; and it is possible that some Argentine stocks have also been sold. Such securities, however, find only a limited market in the United States, and the bulk of the selling is undoubtedly of American stocks. Selling has been favoured for some months past by higher prices and by the favourable rates quoted for remittances from America to London.

In connection with the transference of securities, it may be noted that the restrictions imposed upon the London Stock Exchange at its re-opening in January hinder the purchase of securities from abroad. It is provided that no securities will be good delivery on the Stock Exchange unless supported by the declaration by a banker, broker, or other responsible party that they have remained in physical possession in the United Kingdom since September 30th, and have not since the outbreak of war been in enemy ownership. Further, no securities to bearer, or endorsed in blank, will be a good delivery unless impressed with the Government stamp dated previous to October 1st, and accompanied by a declaration similar to that required above.

The efforts of British capitalists to withdraw loans from abroad, wherever and whenever possible, were naturally accompanied by a general refusal to enter into new commitments, though the artificially easy condition of the money market was

responsible for a number of exceptions. It was of course open to would-be borrowers to negotiate for loans in London and to invite subscriptions to prospectuses, but the terms which had to be offered to secure a successful result were such as to be usually prohibitive. The following table (compiled mainly from figures published in the *Statist*) shows that the amount of capital offered for subscription on account of colonial and foreign countries sank to insignificant proportions from August, 1914, onwards.

CAPITAL ISSUES IN GREAT BRITAIN ON ACCOUNT OF BRITISH POSSESSIONS AND FOREIGN COUNTRIES.

				British Possessions.	Foreign Countries.	Total.
				£	£	£
January	1914	...	...	26,117,783	11,216,683	37,334,466
February	"	...	...	10,760,797	20,800,156	31,560,953
March	"	...	...	10,289,937	11,541,488	21,831,425
April	"	...	...	9,373,898	3,653,086	13,026,984
May	"	...	...	5,502,465	3,106,095	8,608,560
June	"	...	...	12,912,167	9,705,912	22,618,079
July	"	...	...	9,624,680	7,317,475	16,942,155
August	"	...	...	119,800	55,000	174,800
September	"	...	...	nil	nil	nil
October	"	...	...	10,000	1,229,224	1,239,224
November	"	...	...	nil	651,500	651,500
December	"	...	...	1,003,295	890,625	1,893,920
January	1915	...	...	298,000	60,000 ¹	358,000
February	"	...	...	80,000	25,000 ²	105,000
March	"	...	...	5,126,200	nil	5,126,200
April	"	...	...	2,507,930	1,975,000	4,482,930

¹ Excluding £10,000,000 of French Treasury Bills.

² Excluding £9,500,000 of Russian Treasury Bills.

The amount offered for subscription would doubtless have been rather larger in the more recent months but for the intervention of the Treasury. An announcement was made on January 17th last to the effect that dealings upon the Stock Exchange in new issues would only be permitted if the latter had been approved by the Treasury before they were made. Issues for undertakings in the Colonies would only be allowed where it was shown that "Urgent necessity and special circumstances" existed; and issues for undertakings outside the British Empire would not be allowed at all. It was laid down, however, that permission would not in ordinary cases be withheld where an issue was required to replace Treasury Bills or other short instruments held here and falling due. These regulations no doubt stopped a good many issues which would otherwise have been floated, assisted as they would have been by the artificial ease of the money market. It is interesting to note that the regulations have been relaxed in one or two cases, the principal of which is an issue made by the Central Argentine Railway.

The liquidation of foreign investments and the stopping of new capital issues in London are but half the story of the last nine months. For the British Government has been obliged to give financial assistance to the Allies and to the Colonies. The exact amount of the advances up to date is not known,¹ but the size of the sum involved may be gauged from the following list, which shows in respect of each country the amount known to have been either promised or actually advanced in connection with the war :—

					£
British Colonies	...	...	...	...	45,000,000
Russia	...	...	...	...	41,500,000
France	...	...	...	...	10,000,000
Belgium	...	...	...	...	10,000,000
Serbia	...	...	...	...	800,000
					<hr/> 107,300,000

The £45,000,000 for the British Colonies is being made directly by the Government out of the War Loan issued in November last. It was estimated in February by the Treasury that Canada would require £12,000,000; Australia £18,000,000; New Zealand £5,250,000; and South Africa £7,000,000. In the case of Russia £32,000,000 was stated by Mr. Lloyd George to have been actually advanced by February 15th. To this must be added the proceeds of a public issue of Treasury Bills to the amount of £9,500,000 in February. A similar issue of French Treasury Bills was made in January. The total amount of loans made to the Colonies and to foreign countries is seen to be over £107,000,000. This, together with other new capital (£14,032,000) issued since the outbreak of war, and a considerable amount of instalments falling due on issues made before the war, represents a very large sum to be set off against the withdrawals of capital described above.

The question whether the withdrawals of capital have been greater or less in value than the new loans granted since the outbreak of war may now be considered, with the assistance of the statistics of foreign trade of the United Kingdom.

Apart from movements of capital and interest, and with the exception of certain items of a non-commercial nature, it is obvious that the value of goods and services supplied to foreigners by the inhabitants of this country exactly balances the value of the goods and services received. An excess of goods and services received within a given period denotes either an inflow of capital, including short term credits, or an inflow of interest on capital

¹ In his Budget speech Mr. Lloyd George stated that £52,378,000 had been advanced to the Dominions and to our Allies by the end of last Financial Year (March 31).

formerly lent abroad. Similarly an excess of goods and services supplied within a given period denotes either an outflow of capital or an outflow of interest on capital formerly borrowed. If, therefore, the difference between the values of goods and services supplied to foreigners and the goods and services received from foreigners in the course of business could be ascertained, the net inward or outward flow could be related to capital and interest transactions. The problem of discovering whether, and in what quantity, capital was being imported or exported could be directly attacked. Unfortunately the only statistics available as a starting point are the statistics of imports and exports. The values of imports into the United Kingdom, as recorded, *include* a large sum attributable to services performed in connection with shipping and insurance by the inhabitants of the United Kingdom. The values of exports from the United Kingdom, on the other hand, *exclude* a large sum attributable to services performed in connection with shipping, insurance, &c., by the inhabitants of the United Kingdom. Allowance must therefore be made, by deducting from the value of the imports or adding to the value of the exports, as officially recorded, the net sum accruing to the inhabitants of the United Kingdom on account of freight and insurance services. An estimate must also be made of the value of various other services performed on behalf of persons living abroad, but not taken into account in the value of exports as officially recorded. These earnings include payments for the services of bankers, insurance brokers, and other members of the financial community, as well as payments for the India Office and services connected with Government. On the other hand, there are services of a corresponding nature performed abroad on account of the inhabitants of the United Kingdom, which have to be paid for accordingly. Another item in the international balance sheet is services rendered to tourists in this country or abroad. Again, there are items of a non-commercial nature, such as remittances by Indian civilians and merchants to their families at home, and presents by emigrants to their friends and relations. Further, there are some shortcomings in the trade returns in the valuation of goods bought and sold. It is said, for example, that a considerable amount of diamonds imported from South Africa and elsewhere escapes valuation; while sales abroad of old ships cannot be recorded. Since the outbreak of war it is to be noted that an important class of goods has been excluded from the exports. The monthly statements of trade contain the express warning that "the accounts of goods exported include goods bought in the United Kingdom by, or on behalf of, the Govern-

ments of the Allies, but do not include goods taken from British Government stores and dépôts, or goods bought by His Majesty's Government and shipped on Government vessels." The exclusion of these goods from the exports does not complicate the calculation at present in view, because the goods do not represent either commerce or investment abroad. Military and Naval stores on Government vessels arriving in this country are, however, also excluded from the trade accounts, as well as any goods shipped direct from abroad to France for the use of the British armies. This is, of course, an important item at the present time, and the value of the goods purchased must be added to the excess of imports. According to Dr. Bowley, the value of captured enemy cargoes is included among the imports. It is, however, not an import which has to be paid for, and some deduction should be made on that account from the excess of imports. It is understood that enemy ships and presents of grain, sugar, &c., from the Colonies are excluded from the official returns, and it is therefore not required to make any allowance for them.

To proceed now to the actual problem. The values of imports and exports and the excess of imports are set out below, in a table which contrasts the trade balance since the outbreak of war with (i) that of the year 1913-14, and (ii) the average of the period 1906-1913 :—

IMPORTS AND EXPORTS (INCLUDING GOLD AND SILVER) AND EXCESS OF IMPORTS.

,000's omitted.

	Imports 1914-15	Exports 1914-15	Excess of Imports 1914-15	Excess of Imports 1913-14	Excess of Imports Average of 1906-13
	£	£	£	£	£
August ...	55,152	33,303	21,849	7,448	7,788
September ...	47,291	32,633	14,658	9,507	6,555
October ...	53,276	36,366	16,910	9,793	8,086
November ...	57,590	31,426	26,164	16,713	17,946
December ...	69,253	33,223	36,030	20,645	19,162
January ...	69,829	36,526	33,303	14,124	15,319
February ...	67,386	34,674	32,712	8,829	12,491
March ...	77,639	39,792	37,847	11,816	14,562
April ...	74,748	43,818	30,930	11,711	12,993
May ...	—	—	—	6,310	10,227
June ...	—	—	—	13,585	10,732
July ...	—	—	—	11,070	8,088
Total ...	572,164	321,761	250,403	141,551	143,949

The excess of imports over exports during the nine months August to April amounts to £250,000,000, and has been more than double the normal excess; while it is far larger than at any previous time in our history. The first year of war is likely to

produce an excess of nearly £350,000,000 in the value of imports over exports.

It is important to notice that the "adverse" balance of trade is in reality greater than the excess of imports indicated by the statistics above. Large amounts of gold, which would normally have been imported, have been accumulated in Ottawa and in South Africa on account of the Bank of England. It is believed also that some gold is being similarly held in Australia. According to the *New York Journal of Commerce*, the amount transferred from the United States to Ottawa last autumn was £14,600,000. By the end of April, however, movements in the opposite direction had appreciably reduced the amount held in Ottawa. The quantity of gold held in South Africa appears to be much larger. During the nine months August, 1914, to April, 1915, imports of gold from the Transvaal amounted to only £1,725,000, compared with £26,379,000 and £29,266,000 in the corresponding periods of 1913-14 and 1912-13 respectively. This would apparently indicate that at least £25,000,000 has been accumulated in South Africa, though the amount may have been reduced by withdrawals. It may perhaps be assumed that the "adverse" balance of trade is increased by £30,000,000 on account of gold accumulated in Ottawa, in South Africa, and elsewhere. It appears, in addition, that £8,000,000 of gold known to have been received from Russia during December was not included in the import statistics. The inclusion of this amount would raise the "adverse" balance of trade still more, but perhaps it may be set off against unrecorded withdrawals of gold for abroad, and ear-marking of gold at the Bank of England on foreign account, and against the enemy cargoes of captured ships, which are included in the imports, though they have no place in the international trade account.

Another and probably a larger addition must be made to the excess of imports, on account of military and naval stores brought to this country, or purchased abroad and supplied to the Army and Navy without being brought to this country. With regard to naval and military stores brought to the United Kingdom, it appears that when carried in Government vessels and consigned to the Government, they are always excluded from the accounts of imports. Some goods, such as petrol and tobacco, are, it is understood, brought into this country by way of trade on Government vessels, and find a place in the import figures, although they may pass afterwards into Government possession. In regard to goods imported for Government account in private

vessels, it is understood that details are not included in the statements of imports when the naval or military authorities desire to withhold information. This doubtless holds good of guns, ammunition, &c., of which no particulars appear in the statistics of imports. In addition to goods arriving in the United Kingdom, it is possible that military stores are shipped, *e.g.* from America, direct to the British Army in France. It may be surmised, also, that large payments have to be made in connection with wages and salaries, and with requisitions and other purchases effected by the Army abroad. What sum should be added to the excess of imports on account of these various items, there is at present no means of ascertaining. For the purposes of the present article, however, it will be arbitrarily assumed that the total sum to be added to the excess of imports for the nine months is of the magnitude of £100,000,000—*i.e.*, £30,000,000 for accumulations of gold abroad, and £70,000,000 for military and naval stores, &c. The total “adverse” balance to be accounted for during the nine months under review is thus increased from £250,000,000 to £350,000,000. To what extent is the excess paid for by services and in other ways, as described above?

The principal deduction to be made from the excess of imports is on account of shipping receipts. I have elsewhere¹ estimated the net amount accruing to the inhabitants of the United Kingdom from this source at about £90,000,000 in 1907. Since that year there has been a considerable increase in the tonnage of the mercantile marine. At the end of 1907 the gross tonnage on the register was 18,089,642 tons, while on December 31st, 1914, the figure was 20,009,530 tons—an increase of over 10 per cent. The carrying capacity of the ships probably increased rather more than this, because a considerable tonnage of sailing ships has been replaced by steamships, which have a greater speed. On the other hand, about one-fifth of the British mercantile marine is known to have been taken over by the Government since the war began, partly to be converted into cruisers, and partly to act as transports for the Army. Probably the tonnage thus taken over represents more than one-fifth of the carrying capacity of the mercantile marine, because it is the fastest vessels which have been converted into cruisers. The existence of minefields and delays in connection with loading and unloading have also tended to reduce the average number of voyages per vessel. The statistics shown below, as to tonnage entered and cleared in the foreign trade at British ports, indicate that the carrying capacity

¹ See my book, *The Export of Capital*, 1914.

of mercantile vessels still trading has been reduced by not more than one-third as compared with 1907 :

NET TONNAGE OF BRITISH VESSELS ENTERED AND CLEARED
IN THE FOREIGN TRADE WITH CARGOES.

	Entered.	Cleared.	Total.
August 1914 to April 1915 ...	18,082,677	16,069,418	34,152,095
August 1913 to April 1914 ...	24,100,432	26,270,633	50,371,065
Year 1907 (excl. May-July) ...	21,601,364	27,198,865	48,800,229

There is apparently no reason to suppose that the average length of the voyage is less now than it was a year ago or in 1907, and it is assumed accordingly that the capacity of the mercantile marine has been reduced by one-third as compared with the year 1907. The average rates of freight earned since last August have, on the other hand, been much above the level of 1907, as is indicated by statistics compiled from the *Statist* :—

Voyage.	Average for Year 1907.	Average for Period Aug. 1914 —April 1915.	Increase. per cent.
Alexandria to L.H.	8/0 $\frac{1}{2}$	16/3	102
Bombay to p.p. dwt :	15/2	34/3	139
Burmah o.c.	22/7	47/6	110
Calcutta to p.p. (jute)	21/1 $\frac{1}{2}$	41/10	98
River Plate to U.K./C	12/11	44/6	244
U.S. to L.H. (cotton)	27/7 $\frac{1}{2}$	78/4	183
U.S. to U.K. (grain)	2/6	6/4	153
Cardiff to Bombay	9/0 $\frac{3}{4}$	21/4	135
Cardiff to Colombo	9/2 $\frac{1}{2}$	22/-	163
Cardiff to Port Said	6/5	20/6	219
Cardiff to River Plate	13/11 $\frac{1}{2}$	19/10	42

The mean increase of the outward rates is 147 per cent., and of the inward rates 140 per cent. If these figures are representative of “tramp” freight rates as a whole, it would appear that rates are nearly $2\frac{1}{2}$ times as high as in 1907. The freights obtained by liners usually change more slowly than those obtained by “tramp” vessels. But it is not certain that the level of liner freights has in the nine months since last August been lower in comparison with the level of 1907 than that of “tramps.” Information supplied by the New York Produce Exchange shows that while an average of 2·18*d.* per bushel was paid on wheat from New York to Liverpool in 1907, the average for the last five months of 1914 was 5·06*d.*, or 132 per cent. more. For bacon the rate of freight rose from 10*s.* per ton to 30*s.* per ton, *i.e.*, by 200 per cent. If the period since January last had been taken into account the percentage increases would have been considerably greater. On the whole, it appears probable that the commandeering of numerous liners, and the necessity which liner companies experienced to charter “tramp” vessels, have caused

liner freights to approximate more closely than would normally be the case to the level of "tramp" freights.

In order to allow for a possible increase in the proportion of expenses in foreign ports, and to be well on the safe side, the general level of freight earnings is here assumed to be only 120 per cent. higher than in 1907. On this basis, and making allowance for the smaller effective tonnage of the mercantile marine, the sum accruing to the inhabitants of the United Kingdom during nine months of war is reckoned as £100,000,000.

The allowance to be made in 1907 for commission and insurance earnings, financial services performed in London on account of foreigners, office expenses of British companies operating abroad, &c., was estimated at nearly £30,000,000; while some £14,000,000 more were allowed for services in connection with Government, for remittances of various kinds, and for old ships sold abroad. The financial services performed in London on account of foreigners have undoubtedly been greatly restricted in consequence of the war. Many payments ordinarily made through London have been effected through other centres. The volume of business transacted for foreigners on the Stock Exchange has been greatly diminished. The number of American tourists in this country is much smaller than usual. On the other hand, the number of British subjects requiring remittances to be sent to them abroad is also probably less. The cost of Indian and other Government services in London is probably unchanged, and the office expenses of companies operating abroad cannot have been greatly curtailed. Earnings from insurance of cargoes in transit may have been above the normal, because the loss of cargoes early in the war was below expectations. The value of all these items together may perhaps be guessed at 75 per cent. of the figure for 1907, *i.e.*, £33,000,000 per annum, or £24,000,000 for the nine months. Freight and other earnings together would thus amount to about £125,000,000 during the period August, 1914, to May, 1915.

The excess of imports shown above was £250,000,000, to which was added about £100,000,000 for other items, making a total of £350,000,000. The balance attributable to capital and interest transactions, obtained by deducting £125,000,000, is, therefore, £225,000,000. This sum represents the excess of capital and interest coming into the United Kingdom over capital and interest going out.

The principal item in this equation is the amount received as interest and dividends, which may be put roughly at £125,000,000

for the nine months. Sir George Paish estimated the interest on British foreign investments at £140,000,000 in 1907. Since that time there has been a great expansion, and on the basis of the increase of income actually identified by the Commissioners of Inland Revenue as derived from abroad, the amount can hardly have been less than £190,000,000 per annum at the outbreak of war. This would represent a sum of £142,500,000 in nine months. No doubt the war has caused an important diminution in some directions. A number of defaults have occurred, while many companies have reduced their dividends, and no interest is received for the time being from investments in enemy countries. It appears unlikely, however, that the falling off in the amount received is as much as 12 per cent. The remaining difference of £100,000,000 (£225,000,000 less £125,000,000 of interest and dividends) represents a net import of capital from abroad—a net withdrawal of British capital from investment. It might indeed, theoretically, represent capital owned by foreigners and sent into this country. The available evidence, however, does not indicate that any important sums of capital have been lent by foreigners, and it may be said, therefore, that £100,000,000 of British capital have been withdrawn from abroad. This figure, it must be observed, indicates only within a considerable margin of error the magnitude of the sum involved. Until accurate information as to military stores, and as to other items in the international balance sheet, are forthcoming, it is not possible to speak with certainty as to the precise amount of capital withdrawn from abroad.

The conclusions reached in the present article may now be summarised. Since the beginning of the war there has been a marked change in the nature of British foreign investments. On the one hand, large amounts of capital have been withdrawn, notably from the United States, by the calling in of loans and by sales of securities. On the other hand, important sums have been lent to the allied Governments, and to the Colonies, for the purpose of financing the war; and smaller amounts have been advanced for other objects. A quantitative analysis of the trade balance of the United Kingdom indicates, however, that the withdrawal of capital from abroad has exceeded the new loans granted by a sum of the magnitude of £100,000,000, more or less. Compared with the estimated aggregate of British investments abroad—namely, £3,500,000,000—the inroad made so far on the accumulated wealth of the country is inconsiderable.

C. K. HOBSON