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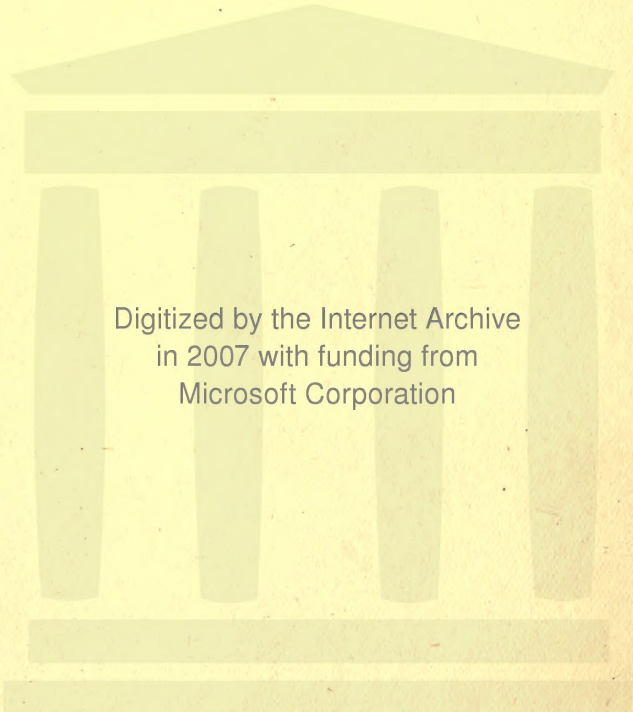

# THE COMING TRADE WAR

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# THE COMING TRADE WAR

By
THOMAS FARROW
AND
W. WALTER CROTCH
Authors of "How to Win the War: The Financial Solution," etc., etc.



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# Contents



# CHAPTER I

## The Task Before Us.

IF we are to fight the coming Trade War successfully then it is essential that we should, first and foremost, clear our minds of cant. We must realise the immensity of the task before us ; we must get at grips with the vital factors of the situation and we must, above all, realise the urgent necessity first, of thinking out a definite plan of campaign, and, secondly, of entering upon its execution with vigour and despatch.

That much said, it seems equally obligatory that we should begin the consideration of this subject with a very positive warning. Eighteen months ago we drifted into war. We were largely without men, without munitions, largely without plans, and almost entirely without any adequate idea of the tremendous nature of the struggle into which we entered—more by accident than by design ! In a word, war found us unprepared and we have had to pay a bitter price for that deficiency. If history is not to repeat itself,

we must immediately set ourselves to the task of being ready to face the greater risks, emergencies, and perils of the peace that is coming ; a peace that events may precipitate much sooner than some of us anticipate. Hence it is that we have set out to define the steps which in our opinion it is important we should take in order that we may prevent our relentless and formidable foe winning from us a mastery during the coming peace, which his tremendous exertions have failed to secure in war. On this ground alone we bespeak for our proposals and suggestions — carefully thought out and deliberately arrived at—not merely a passing interest or a general sympathy, but that strenuous attention and searching examination which the subject deserves.

At present the nation does not realise that a trade war is imminent. A certain interest and a very lively eagerness has, it is true, been exciting the mind of " the man in the street " by the captivating notion of smashing the enemy's trade, and of being avenged upon the German " dumper " with his cheap and nasty goods, and even nastier methods, and for all the

undercutting and devious trading of which we have been the victims. Mr. Hughes' speeches have in particular evoked intense approbation, and have been followed by such a quickening of the national spirit as perhaps no other orator since Chatham ever aroused ; but it is the first law of mechanics that well contrived machinery uses the force which is engendered within itself. To-day, the interest and fervour to which we have referred are being dissipated in evanescent outpourings rather than being concentrated to some practical and definite end. There has been too much letting off of steam and too little turning of wheels for us to have made any progress along the road on which our hearts are set, and, until concrete, tangible and practical proposals are presented to the nation, then reports, meetings, speeches, and all the rest of the propaganda will be so much idle beating of the air. It is high time, therefore, that we appreciated the grim facts of the situation and enquired of ourselves how best we can realise the ideal we pursue, the ideal of wresting from the German his supremacy in certain essential trades, and of so equipping our own country that our unsleeping enemy

will not again have the opportunity of building up in times of peace those vast resources and almost endless reserves of war which may be used again to the detriment of civilisation, and, if possible, for the destruction of Great Britain.

That we are all agreed is the task that will face us when peace has been declared. But how is that task to be achieved ? According to certain political and economic pundits it is premature to think of any plan in this direction now, or at all events, if we permit ourselves to think upon the matter, our conclusions must be of that vague and nebulous character that will rob them of any practical value whatever. The Cabinet is in a difficulty about the subject; it may be that their policy of postponement is not ill-judged. For them to arrive at a decision in regard to our future trade relations with Germany now, might, and in all probability would, necessitate the pressing cares and the imperious needs of the moment being neglected. More, the Cabinet it is notorious, are themselves divided on the question as to whether there ought or ought not to be a tariff against German or foreign

goods ; but, while the politicians and administrators may hesitate, while the Coalition may have really sound reasons for marking time, those same reasons certainly do not apply to the merchants, traders, bankers, artisans, and craftsmen, the organisers and administrators of these realms. If the politicians are content in this matter to wait upon events, to wait until the war is over, when maybe they will be confronted with other pressing problems (such as the Irish Question and the Labour Problem), the vast majority of men of affairs and business, up and down this country, ought not to permit themselves the luxury of any such vacillation. " It's them that take advantage that get advantage i' this world," George Eliot makes one of her characters remark, and remembering it, our commercial men ought to thrash out thoroughly, and at once, the steps that are necessary for us to take in order to destroy German industrial and commercial supremacy. They ought to hold conferences and meetings, and to encourage debates on every possible aspect of the many problems raised by the threatened *renaissance* of German trade and, having arrived upon common ground of action, they

ought to urge it upon the Government with all the conviction and resolution they possess. Initiative has left the hands of the politicians, " who hesitate and falter life away " and is now with men of live intelligence and vital ability, who are too much in earnest to waste time upon the barren polemics and tiresome futilities of party controversies. " Tadpole and Taper," Disraeli told us, " were great friends, and neither of them despaired of the Commonwealth," but the day has come when the Commonwealth despairs of them. " Do Nothing and Rigmarole " have had their innings. It is not to their exponents that we appeal ; we appeal to the men of sincerity and ability of all grades, sorts, and conditions to take up this question of German trade, to study it thoroughly in all its details and, having decided what is necessary under the exigencies of the situation, to enforce their demands upon the Government and so hammer out a vigorous national policy.

Any course of conduct less resolute than this will simply result in our being caught napping once more. Just as we were unprepared to fight the Germans in Flanders and

the Turks in Gallipoli, so we shall find ourselves unequipped to withstand the assaults which our enemies have already planned upon our industry and commerce here at home!

> "Since life fleets, all is change: the Past gone, seize to-day!"

It is perfectly certain that one of the earliest developments of the peace that will follow its declaration is the "dumping" into our English market of a huge quantity of cheap German goods, which are even now being accumulated in her factories, and which she is only waiting the cessation of hostilities to discharge upon these shores. What will be the effect of these huge exports from Germany, supposing we allow them to take place? Remember, in all probability we shall be threatened on other grounds with serious labour crises. Thousands, perhaps tens of thousands of men, will in the natural course be discharged from munition factories. Thousands more will be released at no distant date from active military service. At present we are disposed to comfort ourselves with the complacent reflection that the labour of these producers will be eagerly snatched at

by the other industries that will immediately revert to their normal condition at the cessation of war. But we put it to our readers that the influx of a vast quantity of German goods that have been stored up in German factories for months past, made, some of them, by German women and children at sweating rates, others by alien labour which Germany has imported, and some again manufactured in part by the labour of her prisoners ; we put it to our readers that the invasion of our market by this considerable reserve of enemy goods will have the effect of rendering tens of thousands of our fellow countrymen permanently unemployed, or at all events, unemployed for a period perhaps longer than the war. If we are not very careful, and very wary, we shall yet see re-enacted the tragedy of past wars, the tragedy of men from the trenches begging in our streets—those same men who will tell us that their sufferings in Flanders and in Gallipoli were not comparable to the fate which their country has reserved for them—the fate of returning to their native land and finding that there is no place for them at the table of life, no work

for their strong hands to do, and no means of livelihood except a shamefaced appeal to the charity of the passer-by! Then it shall be said that it was not her soldiers who deserted Britain, but Britain who had betrayed her heroes! Do not let us forget also that the advantage which Germany will thus secure at the outset of the new industrial conflict will remain with her to the end. While our people will be in the grip of unemployment, she will have secured once again her dominion over the English market. She will be again in receipt of English gold and English goods; she will be again in the position of being able to store up more reserves of wealth, goods, labour, power, and later of munitions and shot and shell to be used, perhaps in a decade or so, in another effort to overthrow Great Britain and render nugatory all the essential things for which we have poured out lavishly our treasure and our blood. She will have won the first round in the industrial conflict of the future; she will have secured the start in the commercial race, and this will confer upon her an enormous advantage that may cost our children and even our children's children dear.

We have been told lately by an eminent politician that we must remember that " revenge does not enter into trade." This, we need hardly say, is perfectly true. It would be idle to pretend that a general boycott of German goods, or a general refusal to trade with Germans, is possible. If the whole of the peoples of the allied nations were to enter into a solemn league and covenant never again to buy so much as a German doll or a pair of German socks, it would be impossible still to carry out the pledge. In the first place the retailer would have no means of protecting himself against German goods. Even as we write, at this very moment, when we are at death grips with Germany, it is practically certain that there are on sale in London vast quantities of manufactured articles which have come into this country *via* Germany's neighbouring neutrals. German socks, German fancy leather goods, German tennis coats, German toys, and a host of other German-made goods have been readily purchased by hundreds and thousands of youths, men and women, at a time when they were consigning the Kaiser and his people to the rigours of such a boycott as would have left

them without a vestige of trade at all. " If these things are done in the green twig what shall take place in the dry ? " We have found it impossible to keep German goods out of England during war-time when we relied merely upon the spontaneous boycott of her products ; we shall find it equally as impossible when peace follows war. Whatever agreements the Allies may arrive at in this matter, it is perfectly certain that life is too short for the average man to hold an inquisition into the origin of the goods he purchases, and it is similarly certain that the average woman will buy the best goods she can for the smallest amount of money. Until we are all economically reborn and endowed with a vast amount of leisure this condition of affairs will obtain.

But when that is said, what does the phrase as to there being " no revenge in trade " amount to ? As it seems to us, very little. Let us suppose that there had been no war at all between ourselves and Germany. It would still have been necessary, perhaps more necessary than ever, that we should have entered into the enquiry that we are now proposing : the enquiry as to how and by

what means we can wrest from the Germans the unnatural industrial predominance which they have succeeded in acquiring. This is not revenge ; it is business. Walter Savage Landor taught us long ago that the strength of England lies not in armaments and invasions but in the omnipresence of her industry and in the vivifying energies of her high civilisation. If therefore we allow the German trader, banker, and merchant to forge ahead at our expense during the next twenty years at the same rate of progression that he has shown during the last two decades, then inevitably we must cease to be the great industrial and commercial power which has enabled us to rejoice in a comparatively high standard of life and a vigorous independence of character. Nobody realises this more than the Germans themselves. One of the most illuminative and interesting contributions to the literature of the war came from a section of German Socialists, who, in the name of the " Brotherhood of Labour " and of " International Social Democracy," rejoiced at the impending defeat of Britain and the approaching ruin of her industries because, as they said, *the moment the English workman*

*is reduced to a lower standard of life he will be compelled to accept the Marxian doctrine, and he will know that there is no economic future for him worthy the name that does not rest on an ubiquitous and omniscient State.*

There is no doubt whatever that the Socialists in question were right. The defeat of Great Britain by Germany would have left us in such a dilemma that we should have had to accept a lower standard of living than our people have known for over one hundred years, and the days of our prosperity would have passed like a dream away. Happily that nightmare has been dispelled. But although Germany is failing against the Allies in the field, she may still prevail against them in the counting-house. She will most positively do so unless we arm ourselves for a struggle as grim, as fierce, as unremitting, and as determined as even the great ordeal through which we are now passing. It is not revenge that should prompt us to face this fact ; it is not even patriotism *per se ; it is sheer self-preservation !*

The question is, how best can we face the new conditions ; how can we contrive to wrest from Germany that dominion over

trade and industry, which she has acquired during the past half century ? First of all let us rule out from the consideration of the subject, which we are about to present to our readers, one very important aspect that we do not propose to discuss. Many of our fellow countrymen are quite reasonably in favour of a tariff against German goods ; many again are in favour, more reasonably perhaps, of a general tariff—a scientific tariff against *all* goods, not produced under the British flag. Others are in favour of making such arrangements as will discriminate at once in favour of goods produced within the Empire and by our Allies, as against (*a*) Germany, and (*b*) Germany and neutrals. Others, again, remain resolutely opposed to any tariff whatever, whether designed to penalize Germany or to favour the Allies, or to favour the Allies and the Empire. For our part, we propose in the following pages sedulously to avoid the bewildering conflicts that these different propositions raise. It may be that some fiscal genius will arise who can show us how to erect a tariff wall around Germany, while still adopting a scientific tariff that will favour both the Alliance and the British Empire.

Personally we confess that we do not see how it is to be accomplished. It seems to us that whether Protection be right or whether Free Trade be right—and as to that we offer no opinion whatever — the several entities that we have to consider are so inextricably confused that anything in the nature of a scientific tariff becomes almost as bewilderingly impossible as would be the task of applying the laws of mathematics to the shifting surface of the Kaleidoscope. Where is the economic *savant* who can show us how to ring Germany around with a Tariff Wall, analogous to that of the Chinese Empire, while still giving a preference to France and Russia, and yet remembering the undeniable claims of our colonies ? It may be that there is somewhere, tucked away in obscurity, nursing his lambent intelligence in some local polytechnic, an incipient statesman who will solve a riddle that to us at present appears to be insoluble. But whether it is so or not, we propose to avoid the dilemma, only remarking in passing that there is nothing sacrosanct in either one fiscal cult or the other. We do not know whether future generations will be content that this country shall remain

a purely Free Trade country or whether they will decide upon an Anti-German tariff, or whether, again, they will determine upon a tariff that gives a preference to our colonies or the preference to our Allies. Upon the shifting sands of such uncertainties, nothing it seems to us, can be built, and we are content to turn to the certainties of the situation, to direct the attention of our fellow countrymen to the uncontroverted realities of to-day rather than to the elusive, vacillating possibilities of the future. One thing *is* certain. Whether we have a tariff or whether we do not, there can be no question whatever that we shall not succeed in wresting from Germany her industrial and commercial supremacy until we have learnt lessons which she has taken seriously to heart. " Wise men," said Aristophanes, " learn most things from their foes." Until we are able to produce and market the goods that are most suitable to the commercial and industrial genius of our people more cheaply and more efficiently than our rival ; until we are able to prevent that easy conquest of fresh markets—some of them already protected—which have been the despair of British statisticians and the

envy of British business men ; until we can apply to our methods of production that rigid economy and wise husbanding of resources that have marked the foe whom we have to dispossess ; until, in effect, we can produce more easily, more cheaply, and more efficiently the goods that the outside world requires, than can Germany ; then, tariff or no tariff, we shall be a poor second-best to the competitor in that race for the industrial supremacy of the world, which the twentieth century is to witness and decide. It may be that the adoption of a tariff in some form will help us in undreamt of ways. It may be, on the other hand, that we shall continue to abide by that system of free imports under which, after all, our trade and our commerce have grown to enormous proportions. " The future is hidden from man " ; we do not pretend to reveal it. But this we know : that whether we adopt Tariff Reform in whatever guise, or whether we cling obstinately to Free Trade, unless we assume a different attitude towards industry, trade, commerce, and towards those problems which affect the life and conditions of the vast majority of our fellow countrymen, then we are doomed to failure, and neither Tariff

Reform nor Free Trade will avail to help us.

What we require first of all is the realisation of the fact that trade is a matter of national concern, that it affects the welfare of all the units that go to make up our population. It is surely a saddening and ironical reflection that the only Government Department given over to the management of trade is a Board which comprises nominally the Archbishops of Canterbury and of Dublin and various other functionaries whose names need not be mentioned. Needless to say, that Board never meets, yet who will deny that there is not a very *real* need for a *real* Board of Trade in the United Kingdom?—a Board whose business it would be to stimulate trade, business and commerce in every way possible, and to place all the resources of the Government at the disposal of men whose primary concern it is to organise the labour of the people and to market their products. Let us not be misunderstood in this matter; we are nowadays no advocates whatever of the State usurping all the functions of the private trader. We have come—we confess somewhat reluctantly—to the belief that British industry would

lose its most valuable qualities—its initiative, its ubiquity, its persistence and its capacity of adventure if its conduct passed from the hands of private firms and private merchants into the control of timid and tape-bound State Officials. But we say that it is quite possible for the State to afford most valuable encouragement, assistance, and facilities to the various firms, large and small, who are charged with the task of spreading British commerce throughout the globe. We shall show later on that Germany long ago realised this fact; we shall show that the German Government have for decades past placed at the disposal of the German private trader encouragement, information, and even financial assistance such as no business man in these islands has received from the Government. Why is this? Because the Germans realised the necessity of a national trade policy, and it is surely time that we did the same. It is time that we perceived that it it is by trade that the people of these Islands live; it is high time that the Government bent their energies to assisting and stimulating that trade and commerce in the United Kingdom in every possible direction.

While, as we shall show, the State may be able to do much, the main driving power in the coming trade war must inevitably be in the insight and initiative of the private concern. With all the State regimentation and organisation that there is in Germany we may well take a lesson from them in private enterprise. While, for instance, we have in Germany the spectacle of the State taking over the whole of the stocks, plant, etc., of the textile industry, with limited permits within officially defined limits for ordinary commercial production, we have on the other hand instance after instance of alertness and readiness to promote German interest along the channels of private enterprise. We will give one as an illustration. It is well known amongst business men that during the last ten years the Germans have been particularly strenuous in their attempts to capture trade throughout the whole of the Balkan Peninsula. Both instinctive and deliberate movements of commerce have been effected through these important markets, and on to Asia Minor and the Near East. The partial completion of the Baghdad Railway (in which the Kaiser has always maintained a keen personal interest)

has both instigated and facilitated these movements. Since the temporary suspension of the element of world-competition, brought about by the war, German efforts to consolidate and concentrate these efforts have already been redoubled. And one of the most recent developments in private commercial enterprise has been the formation of a powerful trade organisation known as the German Levant-Union, with central offices at 56, Unter den Linden, Berlin. This important and menacing organisation is only one amongst many such. It was recently founded by a hundred leading men in German commerce, men representative of industry, trade and finance. Its idea is to unite forces for combined action in promoting German trade interests by immediate and direct action in the areas of trade indicated. The statements issued by the Board of Directors are frank and clear. The German Levant-Union is not merely already in touch with reliable and responsible agents, with business connections in Sofia, Bucharest, Athens, Constantinople, etc., but in these and other geographical areas of trade, travelling representatives and agents are already scouring the countries,

acquainting themselves with the peoples and their requirements. And even at the present time the Levant-Union is busy organising branches throughout the Empire in their chief cities and centres of industry and commerce ; and unreservedly placing its powers and its *personelle* at the disposal of a large and increasing membership of the Union. This is but a single and significant instance of the energetic and resourceful efforts of the enemy, *as individuals*, fighting a trade-war *pari passu* with the military war.

Here at home, as they do in Germany, we must look outside the State for the initiative. But what the State *can* do is to reinforce those individuals who are carrying on the trade and commerce of our country by placing at their disposal machinery and resources that only the State can command. In a word, the State can make practical the national trade policy for which we plead ; first by mobilising all its forces at the back of those pioneers of industry whose prescience and talent have enabled them to forge ahead, and to peg out for Britain and the Empire claims on the rich soil of some of the

new markets which await our attention. We need hardly point out that one of those markets is Russia.

To-day it is a distressing and ironical fact that, whereas everything associated with England, English methods, English houses, and even English literature, is at a premium in Russia, little or nothing is being done to take advantage of the tremendous opportunities that the vast Pan-Slav Empire offers us. Russia's trading possibilities are almost infinite. Her mineral wealth is boundless. For the first time for decades her population, largely primitive and, therefore, guided by instinct and sympathy rather than by calculated commercial considerations, are turning with avidity to every suggestion that is made that they should trade with Great Britain. Goods made in Germany are anathema to the Moujik, goods made in England would be eagerly purchased. Again, the wealth that Russia holds in the Ural Mountains can be released for her and for mankind more swiftly by British engineers than by those of any other nationality. The British temperament is not alien to the Russian, and our countrymen stand, as we have said, high in the regard

of the Slavs. There ought to follow this war such a renaissance of industry and commerce in Russia as would keep every engineering shop along the Clyde and every forge along the Tyne busy for many a day to come. Yet what is being done to direct the attention of British traders and British commercial houses to this unparalleled opportunity? Practically nothing. We may be told that those houses are to-day engrossed in the manufacture of munitions. But a time will arrive when this has ceased to be the case, when Russia will lie with all her vast possibilities and all her splendid opportunities ready to be embraced by the physical energy of our countrymen. Is there not a very real danger that at that hour our captains of industry will still lack the information, the guidance, and the inspiration necessary to throw wide the portals of this vast new treasure house; requisite to open up this new chapter in our commercial history, and that they will repeat the mistake of the past and leave the development of Russia to be undertaken—as heretofore—by the tireless and ubiquitous Teuton?

A really vitalised and well-equipped Board

of Trade, were it to exist at the present moment, would make it their business to avert this calamity. They would be busily engaged in calling conferences concerning exports, comparing lists and finally sending out into the Steppes of Russia carefully selected representatives, who could come back to our business houses here and explain exactly what the Russians needed from us and how we could best supply them with their requirements. That Germany is preparing to do this the moment the last shot is fired is beyond all doubt ; that we are making any such preparation whatever is exceedingly improbable. Why is this ? The reason is obvious. The Germans realised long ago the supreme necessity of such a policy of national trade-expansion as would enable them to produce cheaply and market easily. We have not. Even to-day, when the German hosts are being battered into impotence before Verdun, when the German failure in the field is becoming increasingly obvious, when her publicists, like Harden, are advocating peace, and her military resources are drawing to their end, she can look forward to the future with a confidence that we may affect, but

cannot feel. Her plans for the reconquest of her lost trade with Russia are cut and dried. Her projects for the recapture of her commerce with China and in the Far East have been thought out carefully and minutely to the very end. But we, who will have to face the "greater peril of peace," who will have to compete again with cheap German goods, who will have to fight for our very livelihood against cheap German labour and unscrupulous German methods—we have no plans; no plans to combat and outwit the most resolute, resourceful and relentless nation of traders that the world has ever known; no provision with which to face a future menaced by their alert activity, by their unfaltering and untiring pains and care. Depend upon it that is a deficiency which will cost us very dear in the future. The great Bismarck declared that you must either destroy your enemy or conciliate him. To conciliate Germany is as reasonable a proposition as that of propitiating a crocodile or making terms with the panther in the desert. In order to destroy her, or at least to destroy her power of mischief, we must make such inroads upon her trade as will make her dominion, military

or industrial, an impossibility. If we are to do that, we must settle down to consider at once and most anxiously the details of such a National Trade Policy as will secure our people for ever from the thraldom of German supremacy and will save them from the fate of being the helots of German cheap labour. To that end we have outlined a programme which will, we think, prove effective, and in the earnest hope that it may receive the careful scrutiny of every patriot, we commend it to the millions whose fate is at stake, not only in this present struggle, but in the graver crisis that lies beyond.

## CHAPTER II

### The Danger of Drift.

IT is abundantly clear from the foregoing general survey of the situation that so far from there being any automatic accession of German trade awaiting us at the conclusion of the war, it is more probable that the strategic position then obtaining will be found distinctly advantageous to the enemy. We do not for a moment postulate that the position admits of no hope, but its chief element of danger seems to us to lie in the bland and distressing disregard by our people, of the difficulties and perils that will follow hard upon "the piping times of peace," times that are calculated to prove far more exacting and strenuous than even the months of tears, agony and effort that we have already endured. We simply cannot afford to cherish any longer that easy optimism and smug complacency which relies "on something not ourselves which makes for righteousness." That course is fraught with danger in matters spiritual; in economic affairs it is positively fatal. Carey

Street is strewn with the wrecks of men of *no* intentions, and the policy of drift which brought the engaging Micawber to the debtor's prison may yet sweep our Empire to the verge of indigence. There is a more excellent way, and we must take it now ! Otherwise, instead of the rich prize of German trade falling into our capacious lap, our own activities will be paralysed by the unemployment which looms ahead. Let us face the facts. As we have already indicated, within a few months of peace an aggregate of not less than five millions of human beings, men and women (some citizen soldiers, some munition workers), will find their occupations gone, and unless vigorous steps are taken to organise their industry and direct it into other channels a huge number of them will hang like a mill-stone round the neck of the nation, rendering it impossible for us to forge ahead in the industrial race.

The primal problem, then, that will confront us after the war will be to discover for those thousands really profitable employment. Can this be achieved, and if so, how ?

*Ardua molimur : Sed nulla, nisi ardua, virtus.* At first blush the task appears not merely a formidable but a stupendous one.

We shall find industry utterly disorganised ; the machinery of production in a state of " confusion worse confounded," with capital severely restricted, and with the home market subject, most probably, to an invasion of cheap and nasty goods, transcending all the previous results of the now semi-quiescent " dumper." It will be agreed that the prospect is not an alluring one, and it is more than probable that the futile optimism of our present mood with its refusal to face realities and its general reliance upon some mysterious and fugitive providence, which will bestow upon us the bulk of the enemy's commerce, may be succeeded by a bitter and equally profitless pessimism, one degree only more impracticable than the airy *insouciance* of to-day. What we have to do is to avoid either and both extremes ; we have to settle down to an earnest, manful consideration of the obstacles that must be surmounted ; of the difficulties, formidable enough, it is true, but not insuperable, so long as we are at pains to grapple with them at once in all their intricacies and detail and not wait until we are overwhelmed by the force of their impact.

First, then, we should immediately seek

the solution of the inevitable problem of unemployment by an attempt to conquer new markets—markets such as the war has temporarily (in some cases, may be, permanently) closed to the enemy, and which offer us enormous opportunities for successful and advantageous trading. It is no mere rhetorical exaggeration to say that can we but utilize those opportunities, the absorption of five million producers would prove a task that we could undertake without misgiving or dismay. At present we have to affirm—even at the risk of tiresome iteration—that practically nothing is being done to grasp them.

What are those markets with possibilities so vast and so golden ?

They comprise millions of human beings, millions who for the first time will be averse to the purchase of German goods and resentful of the spread of German influence ; millions who have in the world-conflict been our Allies and who will be eager buyers of everything British and British-made ; millions who for the first time in our history will extend to British money, to British methods of trade, to British engineering—aye, even

to British names—a welcome we have never before inspired. We have won the passport to those markets by the blood and valour, by the suffering and willing sacrifice of our troops, and there can be no doubt that if our merchants and traders avail themselves of the opportunities that have been procured for our race at the bayonet's point, then our " pentecost of calamity " will not have been in vain. As matters stand, however, the melancholy fact presses itself upon our attention that the purchases of our friends and Allies would go to benefit not ourselves but the enemy—for the simple and sufficient reason that his trade supplies are organised in the markets in question, while we have been and still are content very largely to neglect them.

Take the first of these unheeded avenues for British Trade—the vast continent of Russia. For close upon a century we were estranged from her people. To-day they are knit with ours in bonds of fervent fellowship —a fellowship cemented in common sacrifice. Russia has a population of 170 millions. Most of them are within four summer days' journey of London. For years the Germans have made not merely a study of these people's

needs, but they have laid siege to the field of commerce which those needs create. In many instances they have succeeded in obtaining a virtual monopoly of supply, and by their insistence, ubiquity, painstaking energy and admirable and persistent canvassing they have accustomed the Russian to think that there is no one much worth trading with in the world save the attentive Teuton, who alone sedulously solicits and seeks his custom. But your Russian is at heart a sentimentalist. As Mr. J. A. Malcolm, the Secretary of the Russian Society, very aptly puts it: "In Russia friendship leads to business and business to friendship." The German has now lost the Russian's friendship and aroused the deep, passionate and over-mastering anger of the Slav. It is more than probable that the Russian will be slow to purchase German goods again—provided that he can obtain others that are, or appear to be, as good. If he cannot, well then, obviously since self-preservation must outweigh sentiment, he will return like the dog of the Scriptures to his vomit. What is being done to-day to secure for Britain an entry into this huge market? Practically nothing. A few years

since we made a spurt in the direction of awakening Russian interest in our industries. We knocked feebly at the door, which the Germans had locked and bolted on the other side. We cried falteringly for admission, and the German, already comfortably entrenched within, laughed stridently, scornfully and derisively at our lachrymose appeals. So far as Russia is concerned we are a people :

> " Whose insight never has borne fruit in deeds
> Whose vague resolves never have been fulfilled."

A few firms of British manufacturers, it is true, had the hardihood to send representatives to Petrograd, who by and by returned in despair, repeating the time-worn shibboleth that the German had so established himself that to attempt to compete with him was labour in vain. They had forgotten the adage that no way is impassable to courage. The German had won his position by infinite tact and uncomplaining patience ; we are losing whatever we might have had by infinite complacency and fatuous neglect. " The Russian merchant and shopkeeper," says a well-informed correspondent of *The Times*, " is extremely quick to see any advantage for his business. He is easily accessible and open

to argument, but he is slow in making up his mind. And it is here that tact and patience are required. Once a salesman understands his customer's idiosyncrasies, the hardest part of his work has been accomplished ; the rest will come easily. The personal factor plays an immense part in Russian business ; hence the necessity of sending first-class men and making it worth their while to put all the push they are capable of into their work."

What is being attempted in this direction by the British Government, or by British firms, or by *Kartells* or Chambers of Commerce ? Again the answer is nothing. We are letting slip through our nerveless fingers the greatest opportunity of extending British trade that Fate ever placed within our grasp. Again let us say that it will be too late when war is over. The German will be " there with his goods " on the spot, and although at first he may receive a chilly reception, in the absence of competition he will ultimately secure the prize. Months ago Mr. Foster Fraser, fresh from Petrograd, pointed this out with admirable clearness and force. " It is no use waiting," he said, " for the war to end. We must start organizing now. There has been

for eight years an Anglo-Russian Chamber of Commerce in Petrograd. It is a small affair certainly, boasting only a thousand members, of whom nine hundred are Russians ; but it could be developed. A similar institution should be founded in London. The London Chamber of Commerce has a Russian section which claims to have done good work, but something much bigger and more distinctive is needed. We must spread our banking system. Our business houses should be represented in Russia by Russian-speaking Englishmen. Export firms should at once send young men out to Russia to learn the language and the conditions of commerce on the spot. There seems to be no reason," Mr. Fraser continued, " why a deputation from the Associated Chambers of Commerce should not tour Russia during the war." There spoke the expert and the statesman—but his warning has been disregarded. The Chambers of Commerce have *not* despatched the deputation for which Mr. Fraser pleaded ; our banking system has *not* been pushed with Russia, and the young men who should have been sent out " *at once* " to learn the language and to study the conditions of commerce on

the spot—where are they ? Some, no doubt, are giving of their blood freely in the trenches or doing work even more vital to British interests than Mr. Foster Fraser suggested. But dozens and scores, who could be spared for this profoundly important and patriotic work, are kept here at home engaged upon tasks of comparatively trivial importance and of almost negligible value. Even if there be any validity in the plea that men of military age must not leave the country, have we no Englishmen over 40 of sufficient resilience and of the necessary business ability to act as our ambassadors in this vast continent which is now waiting, hungering and almost pleading for the chance of trading with us ? Cromwell was over forty when he became the greatest cavalry leader of his day. Gladstone had passed the half century when his Budgets astonished the world. Many an advocate at the Bar achieves celebrity only when his hair is silvern. Without being a Cromwell or a Gladstone or even " a rollicking cute K.C.," there are plenty of middle-aged men capable of carrying out in Russia the work that Mr. Fraser has indicated. To-day that work is being utterly and shamefully and completely

neglected. To-morrow it will have entered that dismal city over whose gates are for ever inscribed the mournful words " Too Late."

Russia, with its teeming millions, offers immense and unprecedented opportunities for British industry. So much is admitted, and this is the market which at present the great business houses, the Chambers of Commerce, the captains of industry, and our leading bankers are content to ignore ! We do not include the Government in this indictment. As we indicated in the previous chapter : their hands are quite full enough. But that the best brains and the liveliest intelligences in the commercial and industrial world should be content to sit passively by and allow the trade of a continent to elude them—that surely is a tragedy which will scarcely bear writing about. Unhappily it is a tragedy that will come to be bitterly repented when our streets may be crowded with mobs of angry men and our workhouses filled with sullen women.

It may be urged that even if we undertook a Trade Campaign in Russia to-day we could not fulfil her requirements. That is true, but we could discover them ! We could

ascertain exactly, wherein lay her chief requirements and how best in the future to satisfy her demands. It is very necessary in this connection to note that one of our difficulties *after* the war will be to arrange for the acquisition and erection of essential machinery. To-day it is the ironical and depressing fact that our manufacturers and traders do not know to what tasks they shall set their people when the war is over. Their attitude is largely one of bewilderment, relieved only by the Micawberian optimism that " something will turn up." But the wise and prudent course, alone by which they can achieve victory, is to prepare beforehand and at once for the conquest of the markets upon which our whole future well-being and prosperity depend.

There are very few people who as yet completely realise the place Russia will inevitably take in all the peaceful reconstructions which will shape themselves after the war ; very few who fully grasp her real position *now*, and therefore are unable to form any notion of what that position prognosticates in the future trade war and its economic readjustments.

She will take her part and her place in a dual capacity. She will enter the arena of a new world's commerce, both as a powerful competitor and a staunch coadjutor ; a reinforced and a self-reliant competitor with the enemy ; a reclaimed, a rectified, and a rejuvenated coadjutor with the Allies. This is amongst the things we *do* know. We also all more or less vaguely understand that she possesses enormous physical and natural resources as a country overlapping two continents. We know that she possesses an enormous potential in prime labour-power. We know that she is in the throes of large and involved commercial developments. We know that she is experiencing a great awakening. We know that a preliminary stage of national abstinence and temperance is but part of a new *morale* which includes political visions of democratic retrenchments and reforms. In a word, we feel that Russia has already entered a period of sincere heart-searching and vivid self-revelation, and that this supervenes over her whole teeming and varied peoples, from Petrograd in the near West to Vladivostock in the Far East.

We know, or rather vaguely apprehend, all this. But how many are aware of the historic germination and growth of the many moral and economic issues which only since the war with Japan in 1904 have produced her present position and status? The single, outstanding and surprising phenomenon which greets every eye to-day is the loyal and ungrudging support which Japan is patiently giving to her erstwhile protagonist. Do we fully realise how this has come about? And what bearing it has upon the future reconstructions in the coming trade war? We opine not. We are well aware of the existence of the Trans-Siberian Railway as a single vast artery stretching thousands of miles across the pristine plains of two continents; along which military assistance is being projected by the virility of the Japanese Empire. But are we aware of the Leviathan proportions of the Russian Railway Programme and its already large ramifications under Japanese auspices in the Far East of the Asiatic Continent? We know that along the track of this single vast artery are already numerous germinal centres of industrial life; that oil, copper,

silver-lead, zinc, and even gold and coal, and numerous metal and chemical activities, are in infant and incipient operation ; that corn, grain, flax, eggs, butter, wood, timber, are collected and distributed along the thin blue line of its highway and imported to these shores ; that from our own shores are likewise transmitted machinery, metal goods, herrings, coal, etc., commingling in the plexus of a commerce as yet only in its giant infancy ; that in all these industrial developments in Russia there are in course of growth quite new industries, supplementing those in continuous growth amongst the old. And we apprehend that all this portends quite fresh and expanding relationships in economic and trade enterprises with ourselves and the Allies generally. We know all these things, we repeat with more or less acuteness of detail or significance of import. But one thing we venture to think our countrymen do not realise, and it is this : *As Russia has become the gateway through which has emerged from the Far East enormous energies of military force which will contribute to an immediate settlement of this bloody conflict, so by the same gateway, and along the same arteries, will be*

*conveyed a rich store of material energies and products which will be contributory to the peaceful reconstruction of the markets of the Western world. In a word, the traffic of Japan, of China, of Manchuria, of Korea, and the whole of Eastern Asia, will overflow through Russia into the European Continent.*

We cannot here enter into the question of the vast growth and expansion of industry, finance, and commerce which, under the auspices of Japanese activities, have prevailed since the late Russo-Japanese War in these geographical areas of the East. Our point is that there is to be seen a remarkable reciprocating development emanating from Russia and her Eastern neighbour, which bespeaks a sympathetic interlocking of activities at that end. Furthermore, this foreshadows a linking up of these activities with Western markets by the Trans-Siberian route. And, coupled with the industrial and commercial growth of the intermediate areas, will arise the complete commercial *rapprochement* of the East and West.

Let us cite the single instance of The Oriental Institute at Vladivostock as an

indication of Russian *rapport* with Japan and other neighbouring countries in the Eastern fields of enterprise. The history of this Institute during the 17 years of its existence is symbolical of Russian official effort to foster and develop connections of culture and commerce with Japan and her Oriental neighbours. It is a repository of literary and art treasures. It is a Polytechnic of courses of study, especially in languages and general educational equipments for civil, economic, military, political, and commercial officialdom. Its membership and *personelle* are cosmopolitan, and it enjoys the patronage and support of varied representative personages and peoples. It possesses its own polygot library and periodical organ. It possesses also the quality of a sort of military station for the avoidance of collision between Russia and her Oriental neighbours. It is in fact a great Peace Institute and Commercial College, effecting unison and fusion of interests between diverse peoples. It has grown with the industrial growth of Eastern Asia, such industrial growth having proceeded largely through the enormous energies of Japanese enterprise. And this Institute, in which the English and

French languages and institutions are studied amongst Russian and Oriental, is utilised by peoples who are mutually interested in understanding each others characters and needs, for the common, cosmopolitan intercourses of peace, humanity and commerce. This Institute is the symbol and signification of the root quality of a great pacific people. The Russians detest and despise the arrogant and domineering character of the Prussian spirit infesting their Western borders ; and, having become interlocked with the Japanese commerce and enterprises in the East, they now seek to effect further strength and growth through the embrace of an equally pacific and humanitarian people in the Western World—the Allies. It will become obvious therefore to the deeper student of these matters that more than the development of Russian internal resources are involved in the readjustments and reconstructions of the coming Peace. She had already grasped hands across sea and continent with Japan before the present outbreak. She will become the medium of unison between the Orient and the Occident, where hesitating or recalcitrant races like Turkey, China, Manchuria, Korea, or

Mongolia are concerned. She will become the great student, pacifier, and regulator of peoples too remote for the personal touch of the Westerns. She will become the great intermediary, the isthmus bridging the vast distances by land. And along the plains and steppes of Russia will roll a flood of traffic from the Far East, meeting and mingling with the surging springs of trade along her own rich lands, overflowing into the marts and markets of the Western world.

But the Russian market is not the only opportunity that the war has created for British trade and commerce. We have a graver reproach at hand in Italy !

Italy has had a brilliant, although in some respects a distracting, commercial history. Her economic status, like her political status, has fluctuated through precarious stages ; nevertheless she has always been as famous in crafts and fine art wares, especially silken fabrics, as she has been renowned in her political exploits. The historic seven independent States of the peninsula were themselves so stratified originally as to cut geographically the natural channels of trade. At one time a Milan manufacturer, shipping

silks to Florence, had to pass through eight customs stations in about 150 miles. And a merchant proceeding on his way from Bologna to Lucca was held up at no less than seven such stations on a route of about 125 miles. These physical and fiscal conditions alone embarrassed national trade development, without the severity of the political cataclysms which have rent this unfortunate country down to the nineteenth century. When political unity had finally been accomplished, it then seemed ineffective in completely freeing trade and industry from some admittedly bad forms of protection, despite the extensive seaboard.

These forms prevail in considerable degree to-day even. Still since the efforts of the illustrious triumvirate—Cavour, the statesman, Mazzini, the thinker, and Garibaldi the revolutionist general—accomplished the unity and freedom of their beloved country, a liberal measure of commercial unity and prosperity rapidly followed. Nevertheless it can scarcely be said that since 1880 up to the present time the volume of commerce has been commensurate with the nation's large population and political importance.

In the recent past especially, Italy has made brave, if somewhat convulsive, efforts to remedy many ingrained flaws in her commercial system ; although it is recognised by certain of her economic authorities that there is much yet to be accomplished. And especially at this time it is thought that certain financial and trade divergencies should be adjusted if the coming *rapprochement* between Italy and ourselves is to be rendered complete and mutually beneficial.

We naturally hesitate to adopt too critical a tone in these matters ; and we are quite alive to the magnificent accomplishments of our Ally in industrial and fiscal growth. But some things must be frankly and squarely faced if reciprocal relations are to be established and knitted in perfect and equilibrated service.

We, of course, cannot shut our eyes to the fact that Italy with its population of some 34 millions and its geographical area of some 111,000 square miles is a highly protected country, and that certain evils are traceable to the excessive application of protection. Wages are abnormally low and cost of living high. Both agricultural and manufactured

imports have suffered from immoderate duties; and this tends to militate against progressive increase in the volume of production, as it also does against the individual powers of the human unit of economic exertion. Italy is thus not so famous for great leaders of successful industrial enterprise, technical knowledge, and business energy. On the contray, as Signor Luzzatti has quite recently said there is undue and excessive speculation in exchange. And the country has groaned under the lavish expenditure of capital, with its expensive merchant marine and excessive freights. Like ourselves, too, agriculture, once so proportionately large and important, has had to struggle in competitive antagonism with industrial growth and inflations; and even yet needs fostering in the interest of a sound economic system. In fine, anything less than vital changes in her economic system will fail to serve Italy as the groundwork in adjusting the large adverse balance in her trade relations with the United Kingdom. For at the present, roughly, she sends us little more than one half the commodities that we send her. And again, about one half of our own exports to

Italy are in the form of coal. Still we do not desire to look too much on the less favourable side in regard to Italy. Our critical remarks are designed to clarify the situation to some extent, and whilst they are intended to frankly indicate the character of the gap which has hitherto separated our Ally from ourselves and the leading nations in the world's industry and commerce, they are not intended to imply that that gap is unbridgeable by any means.

Difficulties there are, of course, and the thoughtless man makes them a stumbling block ; the wise man on the other hand makes of them a ringing challenge and an inspiriting battle-cry. Both Italian agriculture and urban industries offer vastly richer promises for the future. Already there is to be seen an ever-widening desire in the country itself to approximate British methods and to adopt our own more liberal system ; already may be witnessed a really hearty wish to come to closer grips of commercial friendship and interchange with ourselves.

It is a mistake, of course, to suppose that industry is an affair of the heart or that the people of a country trade only with those to

whom they are sympathetically inclined, or with whom they are united in arms. Trade follows the price list and the commercial system in vogue ; or, at any rate, it does not enter in so zigzag a path that profit and loss are unknown considerations. It is idle, it is childish, to suppose that a nation will buy goods from us, or we from them, merely because they have common political aspirations. After all, it is quite possible for an Italian to transfix an Austrian enemy with his bayonet in the Spring and to buy some of that same Austrian's cheap jewellery in the Autumn—provided, of course, that peace has been concluded in the *interim*. We are writing of a time, be it remembered, when peace *has* been concluded ; when the hatred and animosities of the battlefield have been softened, if not obliterated ; when men have turned from the work of hatred and destruction to that of the more prosaic, but still engrossing business of every day business life. In those days the Russian, the Italian and the Frenchman will buy his goods, chiefly with a view to his own convenience. He will not, depend upon it, refuse, rigidly and absolutely, to buy all or any goods of German

origin. That assumption is purely fallacious, but it is, as we believe, the major delusion upon which the British are relying to-day to win the trade war, a war that, as we fondly hope, is over before it starts. Depend upon it we are wrong. As Mr. Venus, the Clerkenwell "articulator," remarked, "there are strings that must not be played upon——— always." The sentiment of the Allies will not, once the war is finished, carry them so far as a boycott of German goods, and if, therefore, we rely upon sentiment alone to achieve victory in the very arduous conflict before us, we shall be bitterly undeceived. But when this is said, all is not said. Clearly sentiment, though it is not the determining factor in these matters, *does* count to a very considerable degree, and there can be no question whatever about it, that for long after the war, the Italian, like the Russian, will certainly prefer to buy British rather than German goods; indeed, he will only purchase the latter because no contra inducement is being held out to him. The neglect of the Italian market, in fact, is one degree less deplorable than our disregard of the new opportunities that the war has created for us in Russia.

For what is the position ? For decades past Germany has sedulously cultivated the land which England helped to free from her Ally, the Hapsburgs—and subsequently chose most regrettably to ignore. To-day we have, however, the chance of making good our long neglect of the nation, for whose liberation Englishmen fought shoulder to shoulder with Garibaldi to achieve. Let it not be thought that this is merely an enthusiastic acclamation of our own individual opinions. It is confirmed by expert views. If our readers turn to *The Times* Trade Supplement of April they will find the following remarkable confirmation of this view. " The friendship between Great Britain and Italy," says *The Times*, " is of long standing ; the aspirations of the Italian people to become a free and independent nation have always elicited the warmest sympathy in England, and the practical expressions given to it have served to forge a link which has always proved strong enough to resist disruption by political strain."

The union between the two nations, as recent evidence has shown, has held because its elements are the common principles which

stand for human progress. It has survived the fact that Italy, driven by political interest, has for 30 years fretted under the yoke of the Triple Alliance. Now, however, that she has broken with the Central Empires, she is free to add to the links which unite her to Great Britain that of a closer commercial relationship."

We can do much more than hitherto to extend that relationship, but we are of the opinion too that much also may be done by Italy to facilitate it. A preliminary sentiment which is classic has long bound us to Italy, as it has in the case of Greece. In the background of the British mind there is a standing sympathy and admiration associated with her illustrious antiquity, her magnificent monuments and memorials of a colossal past, her mediæval beauties of architecture, her superb accomplishments in art. This romantic atmosphere appears to have repelled or forestalled utilitarian intercourses. However it may be, Italy is visualised as an arena for the tourist rather than a great mart for international barter. On the other hand, it must be remarked that Italy has shown jealousy of certain

industries, as, for instance, her cotton and woollen industries, which, although highly protected, have not been remarkable for their progress. It cannot be denied that by important developments in Electrical Engineering, in ship-building, in automobile construction, Italy gives evidence of high rank in enterprise and design. But then again the British manufacturer must recognise that the sinister pressure of the German, with his subtle encroachments on the Continental Markets, in the case of Italy demands serious consideration. This sinister influence was to be seen to the extent even of favouring newspaper advertisements in Italy. According to Signor Luigi Logano, writing in the *Economia Italiana* the gain of the Central Empires at our expense has reached an enormous aggregate. We have only to glance at the following table, published in that journal, to realise that the Teuton has made full use of the opening which we have chosen to disdain. Here are the figures which make plain his gain and our loss :

| | Gt. Britain | Germany | Austria |
|---|---|---|---|
| | Lire | Lire | Lire |
| Cotton piece goods ... | 8,371,048 | 10,933,639 | — |
| Woollen piece goods ... | 19,727,260 | 22,999,385 | 2,146,045 |
| Silk goods ... ... ... | 4,857,954 | 15,278,889 | — |
| Raw wool & woollen waste | 19,320,662 | 7,922,526 | 3,337,272 |
| Leather ... ... ... | 5,659,500 | 31,321,810 | 3,561,350 |
| Boots and shoes ... ... | 5,722,309 | 2,687,700 | 2,010,814 |
| Pig iron .. ... ... | 11,255,570 | 7,137,660 | 1,372,250 |
| Metal scraps ... ... | 853,866 | 6,421,392 | 869,049 |
| Steel & iron (works thereof) | 19,159,899 | 57,039,512 | 9,753,208 |
| Copper, brass, and bronze (ingots, scraps & filings) | 2,687,728 | 2,209,037 | — |
| Copper, brass, and bronze (bars, sheets, or works thereof) ... ... ... | 2,732,819 | 15,771,451 | 1,272,388 |
| Boilers, machinery, and parts thereof ... ... | 24,620,913 | 72,071,887 | 5,726,787 |
| Optical and electrical instruments ... ... | 8,532,708 | 52,018,452 | 3,486,862 |
| Silverware ... ... ... | 910,496 | 6,772,852 | — |
| New ships ... ... ... | 17,985,975 | 3,757,226 | 985,770 |
| Coal and coke ... ... | 324,201,054 | 33,388,203 | — |
| Rubber, gutta-percha, and articles thereof ... ... | 4,653,390 | 17,671,670 | — |
| Colours and dyes ... ... | 1,137,620 | 17,617,795 | — |
| Chemical manure ... ... | 1,244,792 | 1,825,352 | — |
| Sulphates and silicates ... | 21,184,310 | 4,604,001 | — |
| Mineral oils... ... ... | — | 2,464,956 | 1,970,991 |
| Paraffin and motor spirit... | — | 1,170,673 | — |
| Wood pulp ... ... ... | — | 8,820,952 | 9,352,651 |

It is evident from this table, as *The Times* correspondent points out, that the imports from Germany in the year 1913 amounted in value to a total of 612,689,940 lire, and of this total nearly 60 per cent. is in manufactured products. Nearly 25 per cent. of Italy's total

imports emanated from Germany and Austria-Hungary. In textiles, particularly silk, in leather, steel and iron and non-ferrous metals, in machinery, in optical instruments, in rubber, colours and dyes, in wood pulp, the paramountcy of the German in Italy is clear. Only in coal, in certain groups of chemicals, in ships, and raw wool and woollen waste has the British manufacturer at present any important standing in the Italian markets.

The sources of this power of domination wielded by the Central Powers, and especially those peculiar to Germany, really require close study. They rest primarily in the Kartell system of syndication, which covers and interlocks the whole commercial and industrial face of the Empire. This Kartell system is so organised in its monopoly of markets as to command the highest scale of prices the nearer delivery is to the centre of production. That is to say, prices take on a gradually diminishing scale as the commodity passes from the foci of manufacture to the circumference of delivery. Thus the pooling of huge profits in the near markets permits of dumping in the far markets. Thus also can Germany crush competition if she desire it,

in foreign markets, by dumping goods at profits which may diminish to the point of invisibility and yet sustain no actual loss in the bulk of output. We shall take the opportunity to revert in more detail to this Kartell system. Meanwhile British traders may be sure that, in addition to this fundamental advantage, the German takes infinite care to study the local requirements of the markets he desires to capture, to provide easy and suitable terms of credit, as well as preparing and providing the necessary banking arrangements and facilities. Furthermore, a careful scrutiny of the foregoing table of Italian imports will not fail to reveal obvious overtures which the British trader may at once make. Italy has always been a large buyer of our coal. It is a vital and increasing necessity to her in her expanding manufactures. We incline to the view that our export of coal should be always carefully safeguarded in our own home interests.

Why could not the British exploit the list previously given in the extension of deliveries of pig-iron, tinplates, agricultural and textile machinery, cement-making plant, cutlery, chemicals, cotton and linen goods and salted

and dried fish ? While we may prepare to do our part in this, the Italians are already preparing to co-operate in the necessary financial and banking arrangements with ourselves and France to extend their own exchanges and effect further liberalising measures towards the releasing of her energies of production and sea-bearing trade.

But to what extent are we preparing to make good our grave deficiency in those new and extended relations ? Frankly, so far as we can see, little is being done. It is true the Commercial Intelligence Department of the Board of Trade has issued a " secret memoranda " and that measures are being taken to establish new trading relations both by the British Chamber of Commerce for Italy and its equivalent in London. But honestly we are not sanguine of the result. For one thing, as the writer in *The Times* again points out : " One of the great obstacles to the increase of British trade in Italy during past years has been the tendency of the British manufacturer and merchant to impose their commercial and financial customs on a market for which they were never adapted. In addition to the disadvantage of high prices there have been

frequent difficulties as to terms of payment and the lack of banking facilities of the right kind. The need for a closer financial co-operation has been long apparent, and it is satisfactory that the movement for the formation of an Anglo-Italian bank has now reached a definite stage. It is the German financial competition in Italy which has proved one of the greatest handicaps to other nations seeking a foothold in that market, and Great Britain has suffered the additional disadvantage that the German banking organization most closely in touch with Italian markets has had a branch in London through which it attempted to exercise control of many of the financial transactions arising out of British trade." And he goes on to urge with great force the " formation of an Anglo-Italian banking organization which at this juncture with the end of the war not yet fully in sight would be a call to the British trader to lose no time in maturing his plans for an attack on German trade in Italy. To wait until after the war would be to play the game of the enemy. Evidence has been given that in spite of the drain on her industrial resources caused by the prolongation of

hostilities, Germany has perfected plans for a vigorous offensive in foreign markets at the earliest possible moment. It is certain that the most strenuous efforts will be made by the enemy to retain so important a market as Italy. In confirmation of this belief there is the definite information that agents of German chemical manufacturers are already endeavouring to book contracts from Italian houses for deliveries after the war of the enormous stocks which in this and other trades are believed to have been accumulated for a dumping campaign wherewith to open the bitter commercial fight which will then be waged."

Clearly the need for action along these lines is obvious—nay, it is gross, glaring, palpable. But the wheels of our chariot still linger—and time, valuable time, is being lost !

So much for Italy and Russia. They do not stand alone. There is a third, and perhaps an even greater market, over which the Germans held almost complete supremacy till the war destroyed her Far Eastern trade —a trade that, be it noted, we developed long before the Fatherland had dreamt of a

fleet. China, with her countless, teeming millions was first traded with by the Englishmen. Now that Germany has temporarily gone out of business, and while America is busy coining gold out of the blood of Europe, China has no one to trade with her. And yet think of the prospects that her development opens to the European ! China, in fact, offers us in the future opportunities that transcend those possibly of any other country, and those golden opportunities will be opened up, we believe, in the way we have described. But as with Russia and Italy so with the flowery-land. The German trader is thoroughly informed, quite alive to the superb openings that we have indicated. His trade with the Far East, as with Italy and Russia, is well organised, intelligently handled, vigorously administered. It is the British who remain indifferent and unresponsive, content to let the commercial sovereignty in these great realms pass into the hands of the enemy.

## CHAPTER III

### The Gateway of the East

THE first step towards the solution of a problem is, somebody has shrewdly remarked, the correct apprehension of the facts. If that be true, then we shall not have laboured wholly in vain in offering these pages to the world, for, at least, they will have helped to dispel that distressing, but most mischievous fallacy, which has blinded the vision of our rulers and threatens to make our people themselves imagine a vain thing ; the fallacy that pretends we can recover from Germany the lost regions of British trade without a struggle for them ; or, at all events, without that preparation, organisation, and adaptation of means to an end, in the absence of which struggling is in vain. Thousands of our fellow countrymen have permitted themselves to be persuaded that our trade war with Germany is won ere yet the first preliminary skirmish has been entered on. That way madness lies ! If there be one thing crystal

clear in this matter, it is that delay is not merely dangerous—it is positively fatal. The policy of waiting on events is an invitation to the future to destroy us, and that masterly inactivity, which our optimists so dearly cherish, seems to us dangerously like that creeping paralysis which is the precursor of the end. The time to deliberate, to plan, to arrange—aye, and to act *is now :*

> "The moving finger writes, and having writ, moves on !
> Not all your piety, nor all your wit
> Can call it back to cancel half a line,
> Not all your tears wash out one word of it !"

We must rid ourselves at once of the burden of an optimism that, though it be feather-brained, is yet too heavy for any nation, however strong, to carry; an optimism which leads not to increased exertion, to further initiative, to more strenuous efforts, but which confirms us in the sloth, the dignified repose, the inertia that has allowed Prussia to become, not only the first military nation in the world, but perhaps the greatest mercantile and industrial organisation that ever threatened mankind.

Let us look calmly and resolutely at the facts : look at them so that we see them in

their true proportion, " see them steadily, and see them whole." We have seen that in at least three great markets of the world Germany is still predominant, and that we have not so far made any really serious effort to challenge her supremacy. The policy of " wait and see," of postponement, of procrastination, of " doing nothing with a deal of skill," has already cost us dear. In Russia —perhaps the most valuable of the three markets—the resultant losses have proved so costly that it is well worth examining the facts in detail. Those facts are a ghastly irony on the present confidence of our traders and men of business. For they show that, even in the case of goods, produced *not* in the Fatherland, but by ourselves within the Empire, goods that Germany had actually herself to import before she could trade in them, and to import for the most part from us, that even with these, she captured the major portion of the Russian market !

Cotton, coffee, jute, vegetable oils and wool—these raw materials are not German products ; they are, with the exception of cotton, in which America is supreme, staple products of the British Empire. Indeed, so

considerable had Germany's import of oil fruits and oil-seeds for treatment for domestic consumption and for export become that the Union of Dealers at the Produce Exchange of Hamburg in 1913 took the initiative in supplanting the so-called "London contract" by a German contract. "The fact," says a great authority on Anglo-Russian trade,* "the fact that Germany secured so much of the export to Russia that should have been in our hands, and the middleman's profit, in the supply of the Russian market, seems scarcely creditable to British enterprise. The handling by our enemy of those Colonial products was, indeed, a danger in so far as it tended to the expansion of Germany's mercantile marine and the related growth of Germany's hostile navy. The same may be said of Germany's great lead of us in the supply of unmanufactured metals, though her ascendancy in that respect is scarcely surprising when we reckon with the grip that the German metal octopus had secured even on the production of the British Empire. In 1913 Russia imported tin and lead to the value of £2,450,000, of which £896,000 worth

* Mr. R. J. Barrett, Editor of "The Financier."

was received from Germany and £612,000 from the United Kingdom. The like criticism also applies to Germany's great preponderance in the supply of uncombed and combed wool to the Russian market. Even in respect of coal—our greatest natural asset and far and away our leading export to Russia in 1913—Germany was not a bad second, while in respect of coke she was ahead of us."

Mr. Barrett (whose efforts to rouse British commercial men to a sense of the tragedy in which they were acquiescing, deserves nothing short of national recognition) has recovered for us from the *debris* of dead statistics and disregarded figures, with which our Blue Books are strewn, some most luminous facts ; facts which could they be brought home to the national consciousness would make any further neglect of this question impossible.

Taking the total imports of Russia, Mr. Barrett shows us that, in regard to the most important classes of machines in 1913, Germany beat us hands down. That is the grim, unpalatable fact : witness the following table :

| | Total imports | German proportion |
|---|---|---|
| Gas and petroleum motors ... ... | 1,039,000 | 571,600 |
| Sewing Machines ... ... ... | 994,100 | 529,600 |
| Dynamo-electric telephone and telegraph apparatus... ... ... | 1,088,600 | 952,300 |
| Pumps-compressors ... ... ... | 872,900 | 628,400 |
| Steam engines... ... ... ... | 889,500 | 296,700 |
| Typewriters ... ... ... ... | 178,100 | 113,600 |
| Planing machines ... ... ... | 155,500 | 130,600 |
| Machinery for textile industry ... | 136,100 | 24,400 |
| For typographic industry ... ... | 123,500 | 110,800 |
| For milling industry ... ... ... | 97,800 | 87,700 |
| Various instruments and tools .. | 516,900 | 441,900 |
| Lathes ... ... ... ... ... | 1,278,500 | 1,065,800 |
| Agricultural machinery ... ... | 3,872,900 | 1,294,900 |

Let it not be thought that this is a solitary example of German success. We may run through the whole gamut of Russian industry, analyse her imports, compare and value her purchases, and everywhere the same depressing sequelæ confront us. In chemical products, in colours and dyes, in steel, in metal, in hides, skins and furs, in almost every trade, in practically every industry, we have been ignominiously routed by our ubiquitous enemy, who has contrived to defeat us even in those branches of manufacture where our supremacy had hitherto been unchallenged. Says Mr. Barrett :

"The comparative table of British and German imports into Russia shows that Germany contributed £1,886,400 of Russia's total import of chemicals and drugs, amounting to £2,490,000, while the United Kingdom's share was only £225,300. It also shows that of Russia's total import of colours and dyestuffs, amounting to £1,464,900, the German share was £1,053,000 and the British only £56,900. One of the most impressive lessons taught by this war is the world supremacy of Germany in chemical industry and British laxity. There is good evidence that we are laying that lesson to heart, and Russia's dire need, now that supplies from Germany are cut off, has led to such insistent demands on our market that the foreign, as well as the domestic, importance of big developments here is manifest."

To summarise the situation we find that if we examine British and German proportions of Russia's principal imports in 1913, Germany had secured a lead in the race that was nothing short of startling. Here are the figures as given by Mr. Barrett himself :

## RUSSIA'S PRINCIPAL IMPORTS IN 1913

(viâ European, Russo-Finnish and Black Sea Frontiers).

BRITISH AND GERMAN PROPORTIONS OF EACH GROUP'S TOTAL.

| | Total of Group | British proportion | German proport'n |
|---|---|---|---|
| | £ | £ | £ |
| Animal Fats and Oils ... | 1,321,500 | 617,500 | 478,700 |
| Chemical products and materials ... ... ... | 2,490,000 | 225,300 | 1,886,400 |
| Coal ... ... ... ... | 7,534,300 | 3,997,100 | 3,130,700 |
| Coke ... ... ... ... | 1,134,200 | 478,900 | 181,000 |
| Coffee, raw, in the bean ... | 889,400 | 60,100 | 537,500 |
| Colours and Dyestuffs ... | 1,464,900 | 56,900 | 1,053,000 |
| Cotton: raw, waste, etc.... | 10,000,900 | 950,300 | 2,992,000 |
| ,, yarn ... ... | 976,900 | 357,500 | 507,600 |
| ,, tissues ... ... | 1,393,000 | 159,300 | 1,055,900 |
| Fish: herrings, salted and smoked ... ... ... | 2,438,400 | 921,700 | 760,300 |
| Hides, Skins, Furs, raw and prepared ... ... ... | 5,075,800 | 158,700 | 3,479,500 |
| Jute and Jute Combings ... | 1,108,000 | 44,200 | 71,400 |
| Machines, apparatus, and parts thereof ... ... | 16,372,700 | 2,142,300 | 11,754,200 |
| Metals, unmanufactured: total of ... ... ... | 5,273,500 | 932,200 | 2,496,100 |
| Metal Manufactures: | | | |
| Of wrought iron and steel | 1,946,400 | 233,800 | 1,532,900 |
| Wire and manufactures of | 612,900 | 50,800 | 134,500 |
| Various metal manufactures including hand tools for trades ... | — | 112,300 | 844,300 |
| Paper and manufactures of | 32,58,300 | 35,700 | 593,400 |
| Silk, raw and combed waste | 2,714,200 | 21,600 | 1,371,700 |
| Wine, spirit and liqueurs ... | 1,988,200 | 39,700 | 761,200 |
| Tea (including brick tea) ... | 3,069,600 | 98,700 | 16,000 |
| Tobacco and manufactures of ... ... ... ... | 146,500 | 14,200 | 95,200 |
| Vegetable oils ... ... | 500,900 | 60,800 | 191,400 |
| Wax ... ... ... ... | — | 470,600 | 659,500 |
| Wool, uncombed and combed ... ... ... ... | 5,541,700 | 1,303,200 | 3,091,700 |
| Wool yarn ... ... ... | 1,664,900 | 357,500 | 507,600 |
| Woollen or half woollen manufactures ... ... | 1,522,500 | 249,600 | 1,173,700 |

Including Crude Glycerine

Now we would do well to pause here and ask ourselves how it is that Germany is enabled to obtain so masterful a command, not merely of the Russian markets but of the world's markets in general. In order to defeat the enemy in ordinary warfare the first thing we do is to reconnoitre and estimate the nature and strength of his position. To defeat Germany in the Trade War and to reduce her to a position of economic subordination, or, at least economic equality, would be the highest object of patriotism, since without her vast surplusage and reserves of wealth over and above her competitors she cannot again pile up armaments in preparation for another raid upon civilisation. The question is how best to effect this ? We maintain that the answer is to be found to a very considerable extent in a study of the enemy's own methods, and in certain instances in an assimilation of those methods.

Let us therefore briefly examine the commercial system of Germany, which our Allies, Russia and France, may well be assumed to be more familiarly acquainted with, through being neighbours, and having been victimised by Germany's ingenious little ways.

We have already dealt with, and shall in future chapters continue to refer to, various minor, but not less important, features for the study and guidance of our readers. But the two fundamental features of the German system which merit our earnest attention are (*a*) its peculiar methods of Protection and monopoly, and (*b*) its distinctive methods of Banking and Credit. As in a future special chapter we propose to set forth the latter, it is here that perhaps the former may be briefly and usefully described.

The International Parliamentary Conference lately convened in Paris discussed measures of precaution against the " dumping " of accumulations of German goods after the war. While the apprehensions of German activities in this direction may be somewhat exaggerated, there is no doubt that the enemy will resume them at the first opportunity. The assumption of large energies to this end may be premature. The production of goods for export to any considerable extent must inevitably have been suspended through the absorption of national energies in sanguinary warfare, and the stress of obtaining the immediate necessaries of life. Despite the

statements of certain Swedish papers respecting the prodigious production and storage of goods in Germany for " dumping " purposes, it seems that according to the intelligence branches of our Home Departments, fears on this head may be much discounted. Nevertheless there can be no doubt that the vast machinery and mechanism for " dumping " will at the first opportunity be set in motion by the combined energies of Germany and her Allies.

Now the machinery for " dumping " is identical with the whole structure and mechanism of Germany's highly-organised system of syndicated industries, which may be said to be entirely peculiar to the country. It has a certain bearing upon our own, as yet incipient, ideas of tariffism, which are in the air as a weapon to be used against the enemy, but which are not yet reduced to definite formulæ. A description will *inter alia* suggest the nature of the weapon ; and this weapon will prove to be, we think, a form of Protection that will not affront those ingrained principles of Free Trade which have undeniably characterised our own commercial history and development.

As Richard Cobden has become for this country the fount and origin of Free Trade, and a national saint for the political economists, so is Friedrich List regarded as the father of German Protection, and the presiding deity of their great protective system, the present Kartell system. A certain school in Germany, however, contend that the final upshot of List's theory was in reality not Protection, but Free Trade. However that may prove to be, List admittedly advocated, as the basis of his doctrine, the imposition of duties necessary to protect industries *in their period of infancy*. The history, politically speaking, of the growth of this idea into the system of protectionist solidarity now extant we must leave aside. We content ourselves with describing what a large proportion of the German trading community regard as its logical outcome.

Germany is dominated in policy and practice by a constantly increasing ministry of protection and monopoly. It is a thing grown and cultivated for home powers as well as for foreign influence. And the tyranny of its internal operation is no less than its external. " Protectionist solidarity " is its

war-cry, both for local and universal application. The avowed object of the policy and the practice is to prevent prices falling to the general level and average of the free market, especially the world's free market. The vehicle of attainment is the " Kartell."

Now what is the Kartell ? The Kartell may be said to assume the form of an agreement holding separate industries or business enterprises within the bond of an arrangement regarding (*a*) prices, (*b*) specially allotted geographical areas for respective supply, with the monopoly of that supply, (*c*) regulation of output, (*d*) the allocation of respective shares of profits realised by total trade or traffic covered. The motive and upshot of these conditions or measures of agreement is to regulate the supply where it is a question of sale ; to regulate the demand where it is a question of purchase. It is also, of course, intended to preserve the maximum of profit by maintaining high prices. To accomplish this, coercive means may be used against outsiders, even to the extent of the boycott. Penalising through the withholding of the custom of members of the Kartell may be practised. And so forth. In order to enforce

these, and all such rules of the Kartell, the executive may use the right to control commodities delivered or in transit, or to inspect books, documents and correspondence. A common office or depôt may be the centre of this routine of espionage and regulation, through which transactions pass for all the separate and subordinated concerns under the Kartell. It all reminds us of the old principles and policy of the mediæval guilds. Amongst the remarkable effects of this organisation—which we cannot stop to fully particularise—it may be noted that the retail merchant has ceased to exist ; he has become a mere agent. It is laid down from whom he may buy. He buys from the Kartell governing his geographical area. The buying and the selling price is fixed for him. And more, the sort of goods. Still more, the district where he may sell is prescribed.

These Kartells largely embody the producers of raw material : coal, rolled iron, metals in raw forms, and so forth. The passage of raw products to the finishing industries being similarly controlled, and the finishing industries themselves being also enrolled into Kartells, all this completes the

picture of a solid interlocking of national commerce into complete protective solidarity.

Much more may be said. But it may be finally pointed out how this system facilitates dumping. In England you buy coals cheapest at the pit's mouth, the price increasing by natural gradations according to the distance of delivery. In Germany the reverse is the case. Prices are highest where an industry is carried on, because monopoly of production and distribution is complete for the given geographical area. The incidence of competition increasing in acuteness with the distance from that central area, prices commence to sink. But such competition is the more easily borne because the maximum profits on any given commodity have already been secured in home markets. It is obvious therefore that large surpluses of goods are available for dumping on distant markets without real loss. Couple with this " Kartell " protection the imposition of prohibitive duties at port or frontier, and also the heightening of railway freights from frontier to interior, and you have a graphic representation of the solid front of protection which Germany presents to the world, under cover of

which she discharges her commercial gunnery into the outer markets of the earth.

Now what is to be our method of defence or attack against this entrenched position of the enemy in the trade war ? The course of this essay from first to last will have, we hope, suggested many points. Every " bullet," we trust, will find its " billet." But we would like to briefly evolve a single point relating to the weapon of protection which it is assumed we must adopt. And it arises directly from the operation of the Kartell ; or rather, it is associated with the name of its alleged originator, Friedrich List. We have no intention of entering into a polemic against the Kartell. It carries within it, in our judgment, the seeds of its own defeat. The eminent economist who has become the idol of the German protectionist school was neither the advocate of indiscriminate duties nor of their general permanence. For one thing, he was an advocate of the freedom of imports with respect to all those commodities which home industries could not or need not pretend to produce. He did not believe in the exhaustion of national economic energies in unsuccessful competitive struggle. It was

only those commodities for which the country was naturally fitted to produce, upon which he would impose protective duties. Where those natural conditions were available, and sufficient capital was not forthcoming, then protective duties might be usefully imposed until that branch of industrial operation was sufficiently strong to enable it to freely compete with its foreign rivals. His argument was for discriminating Development Duties, rather than for any general protectionist doctrine or policy. He reasoned that capital would be attracted to a young industry at home by a duty on its foreign importations. Such duty would at first raise the price in the home market. By this rise in price new capital would be tempted to embark in its production. In other words, domestic competition in the manufacture of the new commodity would increase. Such home competition would force on improvements in manufacture. Prices in the home market would then commence to diminish until the minimum cost of production was found. Both the minimum cost and the power to stand alone would be ultimately determined by its release into conditions of free economic

equalisation throughout the world's markets. Hercules being tended and fostered in infancy makes his entry into the world, and is victorious against the Nemean lion !

Such we gather is the real doctrine which List would fain have propagated. And so far as it may be made a weapon against his country, who has forsworn him in giving birth to such a monstrosity of protection as the Kartell, we offer it to our compatriots for use in the coming trade fight. Protective it is in its immediate application ; but in its ultimate upshot it is Free Trade.

But there are other weapons. We have been at pains to urge and elaborate our views with regard to the Russian market, because the change of sympathy there is but natural after having suffered the nightmare-presence of the German menace so long. Let us indicate a weapon of another order which we may patiently forge to slay it, keeping our eye the while on the table of Russian imports already quoted.

We have an unique, an undreamt of opportunity of recapturing Russia's lost custom. We have only to turn to the reports of our own Vice-Consuls to find that Russian

merchants are actually "desirous of buying the goods they formerly obtained in Austro-Hungary from Britain" (Report from Mr. Vice-Consul Bagge of Nicolaieff). Why then, it may be asked, do they not follow their inclination and give us the benefit of their money and purchase, no longer from the enemy, but from the Ally for whose aims, methods and characteristics there is to-day such intense enthusiasm throughout Russia? The answer is distressingly obvious. They cannot do so, because our merchants and traders have not given them the opportunity! We may be told that, however deplorable we ought to regard this fact as being in normal times of peace, while we are at death grips with Germany it is really of trivial importance. But that is a short-sighted—we had almost said an unpatriotic view. As Mr. Taylor Peddie has pointed out with real insight and most opportune sagacity:

"Experience has taught us that the power and prestige of a nation does not lie only upon its military and naval forces. The capacity to produce efficiently is at least as important as the other two. Industry has not only to bear the cost of sustaining our naval and military

forces out of profits, but it has also to deliver sufficient munitions for destructive purposes, and the amount required is regulated entirely by the productive capacity of other competitive nations. All this doctrine will survive until all nations agree to live peaceably with one another and to remove all restrictions to the free exchange of goods. But this has not happened yet, and we have to take the world as we find it."

Upon Germany's industrial and commercial renaissance, in fact, depends her power to menace us in the future, and our victory over her in the realm of trade means of necessity that her comparative poverty will render it impossible for her to accumulate again those vast stores and munitions which all but gave her the military supremacy over the world. In a word, it is sound patriotism, as well as good business, that we should ask ourselves seriously to consider what is being attempted to recover for our exporters the position and authority in the Russian market which they should never have lost. Question and answer both are ludicrously simple. They remind one of the famous *pronunciomento* of the Abbé Sieyes, in the early days of the French

Revolution. "What," said he, "are the Middle Classes to-day? Nothing! What would they be? Everything!" Similarly one might ask, "What are we doing to recapture this lost Russian trade? Nothing! What should we do? Everything!" These are bold words, but facts justify them to the hilt. It is quite clear that we should, without any delay, initiate under competent guidance, an enquiry into the vast opportunities for our export trade which await us. It is clear that most of our large business houses and exporting firms are entirely without adequate information as to the requirements either of the Russian, or the Chinese, or the Italian markets. If we are to fight the Trade War successfully, this deficiency should be at once made good. We ought to despatch, at the earliest possible moment, competent and accredited representatives, "Ambassadors of Trade," whose business it should be to inquire carefully, and on the spot, into the conditions, views, sympathies, and requirements of the Russian, Italian, and Chinese purchaser. We may be told—and we fear that it is a deplorable fact—that there are but few business men in England, who are com-

petent to discuss details such as are required in any language but their own. That objection we answer plump and plain by saying that the sooner such men as we have in mind make it their business to achieve a mastery over the languages required, the better it will be, not only for them, but for the future of British trade. We are not sure, indeed, that it is not largely this neglect of a simple precaution that has enabled the German to progress so vigorously in the industrial race. We all remember that sceptic of the Scriptures who was told that he could be cleansed of leprosy if he bathed himself in Jordan, and how he, disdaining the remedy as too supremely simple, continued to remain afflicted with the disease. Something very like this has happened as regards the British manufacturer and exporter. The scales of that white leprosy, which is a death in life, have descended with paralysing effect upon him, and he has allowed the German to achieve a monopoly of many of the most important industries of the world, simply and solely because he has disdained to learn a foreign tongue or to discuss matters of business in any language but his own. Small

wonder that the Teuton has forged ahead with almost miraculous swiftness; small wonder that the Briton has lagged behind until we have ceased to be the workshop of the world, and become, in many cases, the mere hewers of wood and drawers of water, mere helots for the German capitalist.

That we are not talking at random in this matter, but with the fullest official authority, can be easily proved. Our readers have only to turn to the Trade Consular Reports to find that our conclusions are borne out by the testimony of "the men on the spot," by those lonely sentinels of British Trade, who, working with a most inadequate staff and under innumerable disadvantages, yet continue to report to the heart of the Empire the need of the moment and to demand swift action and effective combination on the part of the commercial community here at home. For instance, according to Mr. Vice-Consul Bagge, who is situated at Nicolaieff, "there are innumerable openings for British trade in Russia, and both British manufacturers and capitalists thus have the enormous possibilities of the Russian market within their grasp. It lies with them alone to make use of

this unique opportunity."* But be it noted that he goes on to say that : " It is, however, essential for those wishing to profit by the present favourable circumstances and to secure the business connection with, and maintain a firm hold on, the Russian market, to bear in mind the following observations on local market customs :

" The personal factor plays a great part. British firms should be locally represented either by resident agents or by travellers. These representatives should be conversant with Russian language, they should also be men chosen not only for their business talents, but for their capacities of making themselves pleasant and of suiting themselves to their clients."

Then follows the following momentous sentence : " The present usual methods of attempting to open up a connection by correspondence only is of small avail, and as a general rule, can be said to be a sheer waste of time and trouble."

This opinion of the Vice-Consul at Nicolaieff is confirmed by other authorities who have examined conditions on the spot.

* See No. 5544 Annual Series, Diplomatic and Consular Reports.

According to Mr. Vice-Consul Megalos, who is stationed at Kertch, it would appear that adequate representation of British firms in Russia is more than half the battle in the capture of the trade of that continent. He says: "For years past goods of German manufacture were pushed by means of expert commercial travellers, and the system prevailing in the United Kingdom of forwarding price-lists, etc., in the English language is utterly useless. One could wish that these words could be inscribed on the walls of every commercial house and every office in the British Isles, for although the point they make is so obvious that one is amazed that it should require amplification, yet the fact stands, that up to within two years ago, whereas the Russian trader was visited almost monthly by the same expert commercial traveller, he received from Great Britain nothing more inspiring than a price-list which was written in a language he could not understand." Mr. Megalos goes on: "British trade would be greatly benefited if manufacturers, or shipping firms, would act on repeated recommendations, either to have their price lists printed in the language,

measures, weight and currency of the country, or to send out "—and this he says is the best plan—" expert travellers who should speak the language and carry suitable patterns of a good selection of cheap articles."

If we turn from these to other instructive comments of these Consular Reports, we shall find the same point emphasized again and again. Mr. Vice-Consul Blakey, writing from Kharkoff, pleads that " it is greatly to be desired that the efforts to acquaint Russia with British goods should be most strenuously pushed forward, and that a consistent study be made for the best means to this end." He adds with pathetic insistence: " that whereas a few excellently illustrated catalogues, with good Russian text, have been received at the Vice-Consulate from British engineering firms, this is by no means the rule. . . . *German firms have made a speciality of advertising in Russia, and as this has hardly been resorted to by British firms, the idea has gained ground here that British firms have been outstripped in all modern branches of production.*"

Could there be a more damning indictment of the sloth, inertia and indifference which

has caused the trade of our Allies to pass into German hands ?

Yet it is very difficult even now to rouse the British manufacturer to a sense of the opportunities that are offered him in the Land of the Slav, although he is told with extraordinary emphasis, and by these perfectly impartial officials, that there is within his grasp such an opportunity as he has never had since the East India Company was established in Bombay, or since the Spinning Jenny of Arkwright enabled the Cotton Industry first to assume gigantic proportions. " Russia," says the Vice-Consul of Kherson, Mr. Caruana, " Russia is now a very large market. . . . The whole of the industrial world there is anxious to *boycott all German goods*. If the British merchants would take energetic steps, a tremendous increase in their trade with Russia will be the result, but," he adds, " it is imperative to work the Russian market more thoroughly, that is to say, British merchants must appoint reliable agents and representatives for the sale of their goods. . . If the British firms will appoint only reliable agents and put business generally on a sounder basis a large trade can be done."

His opinion is echoed by that of the Vice-Consul at Rostov-on-Don, Mr. Edwards, who declares that, after taking the opinion of the largest business firms in his town, "I consider that there is only one way to procure big results, *i.e.*, for Britain to step entirely into the shoes of the German and Austro-Hungarian Trader and to continue working on his conditions and terms."

So that we have a cloud of witnesses whose authority cannot be gainsaid, who tell us that, given adequate representation on the spot (now, alas, almost entirely lacking), we can achieve for our people and produce for ourselves brilliant commercial results, that we can conquer markets hitherto almost dominated by our relentless enemy.

The first thing, then, to win back these markets for Britain is to see that a study of the languages involved is entered on without delay by as many competent business men as can be enthused with their possibilities. When this is done they should be despatched to the different districts concerned, and they should then supply our traders and manufacturers with those thousand and one details which hitherto we have always neglected

and which the German has invariably studied. We hesitate to suggest under what ægis this most necessary work should be carried out. From some points of view it would be desirable that the task should be entrusted to the Board of Trade, or left in the hands of our Consular representatives, but alas, this is a course which will only be urged by those who are familiar with neither of those tragi-comedic failures of officialdom. It is hopeless to expect that the Board of Trade could enter on such an enquiry as is most clearly necessary with any thoroughness, and it would be futile to suggest that our Trade Consuls are equal to the task. It might prove to be the case that, after all, the best authority to codify and secure the information required would be a Government department, and if the present administration had not set their face resolutely against the creation of a Ministry of Commerce for the Empire we should have said that that department would have been an ideal initiator of the reform which we are urging. Supposing a Ministry of Commerce to be created within the next two or three months (and it is a supposition made without much encouragement)

and supposing a really capable and inspired man of business were put at its head, and not merely a politician, who is unfamiliar with the vulgar details of the nation's business, then, indeed, we can conceive of no better machinery for undertaking the work. But at present no Ministry of Commerce exists. If if is brought into being it is more than likely to be dominated by a politician, whose pre-eminence on the platform is in inverse ratio to his administrative capacity. We would urge, therefore, that this work should not be left to politicians, but that it should be undertaken by a committee to be hereafter elected by the different Chambers of Commerce up and down the country. Those Chambers should send their ablest men to a joint conference in London and that conference should elect an Executive Committee to engage and instruct these various trade Ambassadors, who are going to peg out claims for Britain in these foreign markets. If that course is not followed, then we can only leave matters to the individual initiative and action of the more alert and sagacious among our own traders. It may be that in generations to come when a real Ministry of Commerce has been found to be

essential in this country, and when our Trade Consular system has become practical and efficient, this most necessary work will be undertaken, not by private initiative, but by the Government itself, which, as we are the greatest commercial people in the world, might be supposed to have some interest in these matters. At present, however, that hope is a vain one, and we must rely upon the prescience, imagination and courage of the pick of our merchant classes. This only will we say before we leave this particular point: for reasons that we have already made clear there should be no delay in the matter, as Germany is already familiar with the requirements of the three markets in question, and, unless we take the trouble to make ourselves at least as well informed as she is, the first six months after the war will witness our discomfiture and the enemies' success.

So much for the first step. Important as it is, it has to be succeeded by others. It is not only his knowledge of local conditions that has enabled the German exporter to forge rapidly ahead; the plain fact remains that if we are to compete with him in the future it is essential that we should adopt and extend

our Banking system until it has lost many of those features of conservatism that to-day enormously hamper the British trader. Over and over again the German exporter has succeeded in ousting the British competitor because he is able to give longer credit. Let us take the case of Russia. According to the report, from which we have already quoted from Mr. Vice-Consul Bagge : " The usual British condition of cash against documents is an effective bar to business. Credit of from four to six months must be given, and if care is taken in selecting clients, as is done by the best German firms, the risk attached to this method of trading is very small. *In this connection I would say that British firms should not pay so much attention to the financial resources of the individual, or firm in question as to his or its reputation for commercial morality and straight dealing.* This remark applies with equal if not more force to the selection of agents. These could be found amongst men with small, if any, financial resources who, on account of their honesty and business activity, would be far preferable to many of the apparently richer agents."

And he goes on to add this most significant

comment : " *In order to enable British manufacturers to cope with the extra financial strain thrown on them by the credits they must give, the closer co-operation of British Banks is necessary. The German exporter has always received powerful backing, and to this support is due in a very large measure the success of Germany on its export trade with Russia.*"

Long credit, therefore, as well as local representation, is an essential to victory in the trade war, and we shall show in the next chapter how the British exporter can produce it on the same terms and with the same ease as his competitor.

## CHAPTER IV

### Some Essential Reforms.

EVERY race, no less than every man, has the defects of its qualities, and we, in these favoured islands, are no exception to the immutable law, which applies of necessity to all the sons of Adam.

Of our qualities we need not speak: all the world has paid them tribute. Our steadfastness, our dogged resolution, our cheerfulness under misfortune, our dauntless persistence under defeat, and our patience under delay, these have extorted the wonderment even of our enemies and have inspired the sceptics among our friends to an enthusiasm which has consumed their doubt in generous admiration. Britain, in this war, has discovered herself and has won the approbation of Europe! And yet, we are not sure whether the discovery has been complete, for it has, to be candid, done much to obscure those faults which are almost inseparable from the qualities we have named. In these times of stress and trial it is of paramount importance that we should learn to adapt

our ideas swiftly and surely to the shifting exigencies of the moment, and that we should learn, above all else, to be on our guard against that most depressing of all tyrannies, the tyranny of the shibboleth ; or " the insanity," as the French have it, " of the fixed idea." Matthew Arnold, that sagacious apostle of " sweetness and light," warned us half a century ago against this besetting sin—a sin natural to a staid and immobile race—in words pregnant with wisdon. He abjured us to accustom ourselves to let our intelligences play perpetually upon our ideas. Only thus, he pointed out, could we protect ourselves from the mental stagnation which, seeking its solace in the unintelligent repetition of phrases, is blind to their true application to the world in which we live.

We may be pardoned, perhaps, for feeling at the moment more than a little depressed by the contemplation of this chilling form of mental conservatism. We have to show our readers how we may (1) complete the local representation in Russia upon which we touched in the last chapter, and (2) provide for that increased period of credit, which is the great secret of the German success in

the other markets. To accomplish these twin tasks we shall be compelled of necessity to challenge at least two of the pre-conceived ideas of the average business man, that is to say, the average Britisher, and we shall have to invite him, his conservatism notwithstanding, to place in that mental crucible he has for so long neglected at least two of his most cherished predilections: those are (*a*) his views as to the part which banks and banking ought properly to play as regards industry and commerce, and (*b*) his conception of the functions of the State in regard to that trade by which we live.

Now, as regards the first, it is more than possible that the man-in-the-street has scarcely troubled to think at all about it. If challenged on the point he would reply to the effect that a bank was primarily a place where you could leave money with the utmost security and an organisation which lent out its funds only on terms, and in investments that precluded any possibility of loss. The business of banking, he would say, was to invest in gilt-edged securities only, and to offer the equivalent assurance to its customers. Now, without troubling to ask ourselves how

far this engagingly simple view of the situation be correct, either from an historical or a practical point of view, it is perhaps well worth while to point out that in Germany, at all events, the view in question has no basis in practice. The German system of banking (or what is known under that misleading. title) is a vastly different business.

It has justly achieved a world-wide celebrity. We have its praises chanted by men of business, political economists, and even latterly by labour leaders, now slowly rousing themselves from their torpor on things financial.

We say " what is known as the German banking system " advisedly. It is one of the supreme ironies with which the war has confronted us, that Germany has succeeded in being credited, not only with vices that are her own, but with the excellencies and achievements that she has with great discrimination adopted from other nations. This is true, for instance, of conscription—assuming that to be a virtue. We are frequently told, both by the advocates and opponents of compulsory service, that it is entirely a Prussian institution. That is not the case. The real founder

of the Prussian army, Frederick the Great, was, it is perhaps worth while recalling, a convinced opponent of compulsory service ; so much so that he uttered the famous paradox that, in a perfectly organised State the non-combatant citizen ought not to be troubled by the knowledge that the country was at war ! As a matter of actual fact, the ideal of conscription was introduced into modern Europe by the French, and was copied from them by the Prussians after the Napoleonic Wars !

Similarly, we are accustomed to think of the Germans as the great pioneers in Housing and Sanitary Reform, although, as a matter of fact, both these important movements had their rise in England in the days of our grandfathers, long before Germany had begun to realise even the necessity of washhouses, and while Lord Beaconsfield was proclaiming aloud the Gospel of " *Sanitas, Sanitas, Omnia Sanitas.*" And, as with Conscription, and Housing Reform, so with Banking. The Prussian, who borrowed his literature from France, borrowed his banking system from the same source, the only difference being that, whereas in the one case the wit and

humanism of Voltaire and Molière was perverted into the insanities of Nietzche, or depressed into the banalities of Treitschke, so far as the more practical science was concerned, the descendants of Frederick the Great may fairly claim to have so elevated its practice as to obtain the utmost possible advantages for their traders with a minimum of risk.

What is the German banking system ? It may be described as one that recognises as the true function of a bank, the feeding, stimulation and encouragement of industry. We need hardly point out to those of our readers who are familiar with the daily conduct of business that banking, as it is at present conducted in these Islands, has objects to which the aforenamed are but secondary. In Germany the business man, the merchant or the trader,who desires to increase his activities, to extend a particular line of his wares, or to launch out into new markets, has only to apply to the bank to be provided with the requisite capital. The bank, of course, requires to be satisfied as to the soundness of the proposition which he is introducing, but if they are convinced, first as to his capacity

and integrity, and secondly as to the possibilities of the venture he is interested in, then no difficulty whatever is made in the matter of accommodating him with those sinews of war without which he could not proceed. In Germany it is no uncommon circumstance to find businesses prosperous and successful, financed by the banks, who are content to place almost unlimited funds at the disposal of the directors. In England that is the exception, not the rule. The individual trader, shopkeeper, merchant or manufacturer who goes to the bank for an overdraft must have collateral security, and his business must be one that has been firmly and, for long, established ; and even then the required assistance may not be forthcoming. In Germany the banker is familiar with the details of production, the methods of marketing, the modes of executing orders, the risks to be run, the profits to be earned ; in fact, with all the minutiæ, not of one or two favoured houses alone, but of a large variety and diversity of trading concerns. The commercial libraries in the German banks, those monuments of painstaking care, the most brilliant exemplars we have of German

efficiency, are themselves invaluable aids to business enterprise, and the trader, who calls on the Bank Manager to interest him in any new proposition can obtain within half-an-hour access to all the known facts bearing upon the particular trade or industry in which he is engaged. Every German bank is equipped with reports, statistics, expert opinions, books of reference, and other data forming a library the like of which we doubt is to be found in its entirety in the whole of the United Kingdom. Why is this ? Surely because the German banker regards it as his natural function and business to aid and stimulate industry, whereas the British banker conceives it to be his proper function only to advance money against security.

As a matter of fact, there was a time in Britain when the banking methods now adopted with such success by Germany were in force with modifications in these Islands. As one of the present writers (Mr. Farrow) has pointed out in his volume *Banks and People*, the Scotch banks at the commencement of the eighteenth century were accustomed to make advances to their customers on terms equivalent to those which the

German Banker now offers as a matter of course. Let us recall the observations made on this point: "Scotland offers the finest example in the world's history of how a people may pass, as if by magic, from a state of poverty, misery, and all forms of industrial, commercial and financial struggle (in some remoter parts amounting almost to a depth of barbarism) to one of the most flourishing and prosperous nations in Europe. And to this rapid and wondrous transformation was due a significant change in one department alone of its economic system. The Bank Charter lapsed in the early years of the eighteenth century, namely in 1716, and the supply of capital and credit became free. How the bankers took advantage of their new position is well attested by historians and economists, and by few more clearly than Dunning Macleod. All such authorities and eye-witnesses of the working of these unhampered banks vie with each other in the recognition of their great utility, their exceptional immunity from panics, ruin or loss, and their unequalled prosperity-producing power." But, although Scotch bankers in those days were practically in the same

position as are the German bankers to-day, they were able to freely grant cash credits to producers to aid their productions in the form of their own notes and gold ; and the results that followed this system were acknowledged in a remarkable Report of the Lords and Commons Committee in 1826 on the state of Circulation of Scotch and Irish Notes :

" There is one part of this system," says this Report, " which is stated by all the witnesses (and in the opinion of the Committee very justly stated) to have had the best effects on the people of Scotland, and particularly upon the middle and the poorer classes of society, in producing and encouraging habits of frugality and industry.

" The witnesses whose evidence we have quoted stated that it was calculated that the number of persons who had Cash Credits granted to them amounted to about 10,000 or 11,000, and, as the average number of securities to each bond might be taken at three, there were about 30,000 persons interested as securities ; so that the total number of persons at that period

—1825—who were interested in the system was at least 40,000. The Banks were then supposed to be under engagement of that sort to the amount of £6,000,000, of which about two-thirds were drawn out. This system has a great effect upon the moral habits of the people, because those who have securities feel an interest in watching over their conduct ; and, if they find that they are misconducting themselves they become apprehensive of being brought into risk and loss from having become their sureties ; and, if they find that they are so misconducting themselves, they withdraw the security ; the practical effect of which is that the sureties do in a greater or less degree keep an attentive eye upon the future transactions and character of the person for whom they have thus pledged themselves ; and it is perhaps difficult for those not intimately connected with it to conceive the moral check which is afforded upon the members of a great trading community, who are thus directly interested in the integrity, prudence and success of each other. *It rarely, if ever, happens that Banks suffer loss by small Cash accounts.*"

Unfortunately, the system in question, owing to legislation that we need not now dwell upon, left Scotland, but it passed to France. In France it took the form of the *Banquier* system, the operations of which were described fully in *Banks and People*, and from which we now freely summarise. The French *banquier* system must not be confounded with the few large loan offices in France, which advance cash on share and other securities. They are of a type and have a mission differing from these. Private *banquiers* abound in their thousands in small centres as in large towns and villages all over the county. They compete with each other in supplying capital and credit to labour. The trend of their operations is to favour, not the richest consumers, but the best employers of labour. They thus stimulate and assist work and production in every corner of the land. It is remarkable how little is known of these benefactors of trade and industry in our own country. Yet their good work has gone on for generations, and still goes on; and it plays a great part as a regenerating influence in France and elsewhere on the Continent.

Now the draft is the chief medium of exchange in the French *banquier* system. The method is simple in the extreme. When a French producer or merchant has sold a parcel of goods and made out his invoice, his first step is to draw a draft on the buyer. This draft he takes to his banker, who makes out a *bordereau*. The bordereau is a statement in which the net value of the drafts paid in that day is arrived at by the deduction of interest, differences of rates of exchange, and bankers' commission. The drawer is then credited by the banker for the net amount of each *bordereau* in account current, and is allowed to draw either the full amount or part of it at once. As a keen competition exists between the bankers, such producers or merchants, whose drafts as a rule in due time meet with a prompt acceptance and payment, can generally draw the full amount, and are often granted an overdraft.

The powerful influence by which this *banquier* system acts upon the rapidity and fruitfulness of production may be well imagined, when it is seen that it specially adapts itself to the small as well as the larger class of trades or industries. It is, in fact, essentially

a people's system. The *banquier* may be located in the most modest or remote centre of industry, as for instance, the agricultural, horticultural or fishing industries, for which France is noted. The *banquier* system has, in fact, expanded like a net over the face of France. And its extension to other countries, even facilitates the smallest and most modest extension of international trade. Their business for the most part is to discount the *bordereau* draft. The method is more profitable than money-lending; and requiring but comparatively small capitals, a large turnover is made at considerable advantage.

The drafts thus discounted for customers are generally drawn on localities distant from the local market. As a rule precedence is given to this business. As soon as a banker, for instance, in Valence receives drafts on other places he sends them each to a banker in the place on which they are drawn; or, if the place is too small, to a *banquier* nearest in that district. Drafts on foreign places may go through Paris or a foreign banker. Such corresponding bankers credit the Valence banker on receipt, sending him, in return, drafts drawn on Valence and its neighbour-

hood, which have accumulated in their hands. These the Valence banker presents for payment, and by this supplies himself with cash which he holds for the disposal of his customers. And so forth throughout the net work of the system. Long drafts are disposed of to the larger and wealthier banks in the leading centres. These can be drawn on at sight by the smaller *banquiers*. Thus our Valence banker can always replenish his cash supply. The point is that the *banquier* system facilitates the local production and sale of goods for delivery outside his district. That is to say, it is the producer himself who can best employ labour, or who has the greatest business ability rather than the wealthy consumer, whose business is sought and whose thrifty operations of trade are brought out. The rich, who require cash for consumption purposes are not suitable customers for the local *banquier ;* for any capital advanced to them is not replaced by the exchange of the *bordereau* drafts. This is the case in a nutshell for the " People's Banks " idea which Mr. Farrow advocated. This is the vital factor in his plea for an amplified system of Banking and Credit for the smaller business

or capital-less class of the community. The feeding methods of the interlocking French *banquier* system of credit has had the most remarkable effects in encouraging thrift and enterprise. Generally speaking, banks are not necessarily the possessors or holders of money, and certainly their assets are not all liquid. They are the machinery through which it is collected and distributed. And the principle on which this is done has a great deal to do with the availability and cost of money. By the *banquier* system beyond all others money is rendered a constantly flowing stream of credit, which flows past the *locale* of the shopkeeper, the farmer, the small holder, the fisherman, the horticulturist, and the multitudinous class of minor capitalists. He simply has to step out to the " banks" of this circulating stream of credit, and, dipping into it as with a pitcher, irrigate his little holding of economic exertion and profit in rich reward. And this constantly flowing stream keeps the cost of money and production low and the price of sale high. It therefore benefits the country in the same way as the revival of the old Scotch system of note-issuing would. It will be thus seen that

the people are the basis of all credit. Any prosperous community may in fact " secrete " enough credit for its own use by its own labour exertion. Such credit passing into the main circulating stream increases the amount and the availability, and makes the humblest labourer the medium of maximum production and prosperity.

Now it was this system which, entering Germany from France by the eastern border as well as from Belgium and Switzerland, has now spread all over the country, and has enabled the German capitalist and producer to forge ahead with such astounding rapidity to increase his output and to capture customers beyond the reach of the British producer. Let us contrast for a moment the position of the German trader under the old regime and that which he occupies to-day. Thirty or forty years ago he had to limit his business to the small amount of capital he possessed, or to borrow on mortgage or collateral security. Obviously, therefore, his purchases of raw material were comparatively trifling. Frequently they had to be made at an artificially high price. When he had reached almost the limit of his capital in manufacturing

goods, he had to slacken production until those goods were first sold, then paid for. Frequently, to tide him over this trying period, he had to sell to a middleman and at a low price. Thus he was hampered by trade, raw material, price of sale, a limited production and those economic incidentals which always fasten on a business short of cash.

To-day all that is changed. The system of banking in vogue in Germany has created an entirely new condition of affairs. The manufacturer can buy largely and in the best markets direct and without the aid of the middleman. He can manufacture on a larger scale simply because so soon as his goods are out of the factory he can draw drafts on his customers and through the bankers renew his capital. Obviously this fact puts him in a position of marked advantage as regards the invasion of foreign markets and the dumping down of cheap goods wherewith to capture the enemy's trade. But that is not all. Much might be said about the benefits accruing to him from buying wholesale in the best markets, on terms which for the seller are nearly as good as cash terms, as well as the advantages gained from a large turnover. In

all business, and especially in a manufacturing business, there are big expenses which remain the same, whether the turnover be large or small, such as rent, interest on machinery, living expenses, clerks, foremen, models, patterns, moulds, travellers, advertising, experiments, samples, artistic assistance, dyes, stamps, etc. In many small factories where these small expenses amount to as much as raw material and wages, and in many crafts carried on on a small scale, these are the chief expenses, while raw material and wages are insignificant. If a man has 70 per cent. of such expenses and a small turnover, and can, by better financing, produce ten times more, his goods cost him 63 per cent. less, and he will easily beat those who work in a small way. Moreover, it is manifest that all such benefits conferred by improved financing affect others in the community besides the manufacturer ; they mean a general amalgamation of the welfare of the working people. A larger production means a greater demand for hands, a higher wage ; and cheaper production means lower cost of living and extended enjoyment for the workers. It is clear then that the *banquier* system brings

about a result which a good system always should produce—higher wages, with lower cost of production.

It has been argued by some that this seems impossible and involves a contradiction. But surely the foregoing facts prove that this is not so. It is therefore not surprising that German manufacturers should seek out large customers, or that they should do their utmost to extend their connection among large British import firms, or even among large British shops, and among British exporters to the Colonies and neutral markets.

In reviewing the effects produced by this truly remarkable *banquier* system upon German industrial activities to-day and contrasting them with their disabilities of forty years ago when the *banquiers* were not in their midst, we are forced to the conclusion that we English are now much in the same retrograde position as regards financial facilities as the German manufacturers were forty years ago. And surely this being so, it is somewhat astounding, to say the least, that, in face of these undeniable facts, we should go on seeking for a remedy in the direction of anti-economic measures and continue to

cherish our own antiquated methods as though they were infallible. And the sad spectacle of British manufacturers handicapped at every turn and striving to keep pace with their more fortunate, in this regard more enlightened, foreign competitors, and being forced, often against their will, to sweat their own workmen, offers a saddening comment upon our dogged adherence to our antiquated and irrational system.

We have been at pains to treat this question of German Banking thus in detail, and at some length, because quite apart from the fascination of the subject—a subject far too little known to the people of these islands—its vital importance is obvious. It is transparently clear that the increased credit facilities which the German banks place at the disposal of the German exporters enable those same exporters to give in turn longer credit to their customers and thus to capture their custom as against the British competitor, and to close its doors against him. Increased credit means not merely increased production, but that the markets for the products can be quickly, easily and firmly secured. Quite obviously then, if British

commerce is to regain its lost ground, we must see to it that British banking methods are subject to reforms, which, however drastic, are absolutely necessary—reforms that we discuss in the next chapter.

## CHAPTER V.

### The New Banking.

A GREAT thinker once happily remarked that it was "only infirmity that clung to a label." We have always deemed the saying a shrewd one, and at this crisis in our history it seems peculiarly apposite. Now, if ever, it is necessary, supremely necessary, for us to pass in review all our old conceptions and ideas; to challenge our cherished prejudices and to bring even our sympathies to the bar of intellect. The beliefs and inspirations that have guided us heretofore—the very phrases that we use—let us see that they have a *real* significance to-day and that we are not merely using them as a substitute for thought. We say this with the more insistence because the trade war with Germany is an event that demands not merely earnestness, vigour and determination, but that grip of realities without which these avail nothing.

We must take a clear view of the situation. We must rid our minds of the tyranny of

preconceived ideas ; of the hypnotism that phrases have come to convey to us during the easy course of the affluent years of our prosperity, when we accepted them, readily and cheerfully, as having a meaning that in these dark days may seem on examination strangely obsolete. We must, in fact, be prepared rigorously to revise our old mental concepts and to see that the phrases by which we are all more or less governed are really worth preserving.

So far as banking is concerned we have shown, we think incontestably, that it is imperative for us to recast our old ideas concerning that intricate but most vital business. We have seen that the German is able to win markets from us largely because his banking system is less hide-bound, less stereotyped, more venturesome and more elastic than our own. It is clear that our banking methods need to be adapted and extended to the new conditions that confront the Empire in the struggle upon which she is now entering ; and it is clear also, at least, that is our submission, that the part the State has to play in the ordeal before us must be defined along lines that have hitherto received only the very scantiest attention.

At present the part that the State or the Government ought to take in the industrial conflict falls under one or other of two diametrically opposite schools of thought, neither of which we opine have found wisdom in this matter. The first of these, preceding logically from the mid-Victorian individualism of Cobdenite economics, asserts that the less the State has to do with business the better. Its advocates insist on the importance of the free initiative of the individual trader, whom they urge should be as unfettered as possible, and they argue that, while the State, hampered by bureaucracy, red-tape and officialdom, can never bring to bear on the cognate, but shifting, problems of the Kaleidoscope of the world's industry, that swift decision and ready acumen which characterises the business man ; it may, on the other hand, do infinite mischief by imposing restraints, especially by way of tariffs, on those whom it is quite incapable of superseding. Hence it demands that trade shall, above all other considerations, be free and that restraints on its operation shall be abolished.

The other school insists that the true freedom of trade lies in its Protection against the

cut-throat and unfair competition of other peoples, and asserts that only by a system of scientific tariffs can our traders and our producers have a chance to develop. On the one hand, therefore, we are faced with the propositions that, if Free Trade is to be exultant and secure, then the State can and must do nothing—except, of course, police our streets, check the most obvious forms of counterfeit and enforce the Factory Acts ; and that once Protection is established throughout the British Empire, private enterprise, the initiative of individual firms, the ubiquity of the retailer, the persistence of the small man in industry—all these and much else must pass into the *Ewigkeit*. On the other hand, we are told that without the solvent of a Tariff we are lost and all effort is vain. For ourselves, we are unable to adopt either view. The situation as it seems to us resolves itself into this : that, whereas there is much that the private trader can accomplish which the State cannot do, while he can launch new ventures, conduct fresh enterprises, open up undiscovered markets ; it is also certain that there is very much that the private trader cannot attempt without the aid of the State

and that the State in its turn cannot achieve without the aid of the private trader. It would be folly, for instance, to leave the reconquest of our trade from Germany to the State, or to put it more plainly, to State officials. These lack the insight, the ubiquity, the business instincts of private commercial men. On the other hand, it would be equally childish to pretend that the private business man can, without Government assistance, achieve the results we all have at heart; he lacks the opportunities, the methods, the resourcefulness, the command of information, the general sense of power and responsibility that must follow the State. Hence it is that we postulate the necessity of the State, not arbitrarily interfering, checking or restricting the private firm or man of business, but rather its aiding, stimulating and supporting him. In a word, if we are to recover the trade that we have lost to Germany it is very necessary that we should adopt a new view, alike of the functions of the State and of its industrial and commercial possibilities. While we should dismiss the idea that industrial victory is to be achieved only by State reorganisation, we should nevertheless carefully consider the suggestion

that the State stimulation of private industry may prove the way to victory.

We may apply this forcibly to the subject we have been considering.

We have been at pains to point out that to recover the Russian, and other markets, it is essential that the British exporter should be enabled to offer extended credit to his customers and that he will only be in a position to do this when our banking system has been to a large extent remodelled and brought into line with modern conditions. How can this be affected ? Frankly, we think that the State is the only existing organism that can do much to initiate the necessary reform. It would, no doubt, be better, of course, if British bankers were themselves to adopt the methods that have proved so successful in other countries and that, like Paul of Tarsus, conversion should come to them as in a flash. But that is scarcely likely to happen. We must allow for the force of custom, for the tyranny of the dead hand, for the conservatism natural to men in settled occupations. British bankers have become so accustomed to the idea of advancing money only on traditional lines that there is not much chance of persuading

them to adopt new methods until much valuable time had been lost, time which our German rivals would use to recover their lost hold on their old customers. For that very reason, therefore, it seems inevitable that the Government must play a leading and a vital part in the great transformation scene that we hope will follow the war. That part has been admirably indicated by no less a Banking authority than Sir Edward Holden, the distinguished Chairman of the London City and Midland Bank. Sir Edward suggested, some little time since, that we should lose no time in forming a new banking combination—in effect, a Trading Bank, to be capitalised from the resources both of existing banks and those of their customers who were engaged in the export business: a bank whose function it should be so to finance our home firms as would enable them to hold their own against the Hun in this vital matter of extended credit. The part to be played by the Government was a striking one. They were to guarantee a fair return on the capital invested during the initial period, and under the protection of that guarantee one has no doubt that the millions necessary for the

gigantic task I have outlined would be readily forthcoming.

We recall a speech of Sir Edward Holden as far back as January, 1914, when he reviewed the financial situation, principally in relation to our gold reserves in comparison with Germany, and especially also our financial embarrassments through the protective character of the banking institutions of Russia and France. The meeting was that of the London City and Midland Bank, and the idea then was to appeal to the Government for such assistance as they only could render in the situation as it was rapidly developing. Incidentally it may be noticed that he then pointed out that Germany had already been enabled by her highly organised banking system to increase her gold reserve by fabulous amounts. She had announced her intention previously of doing so. And British experts had declared that she must fail in these designs. But at any rate Germany accomplished. Since then, however, the enormous strain, and its unforeseen prolongation, is already putting her at her wits end to keep her hold on her gold reserves in sufficient quantities to finance the revival of her after-the-war

industry, and especially her dumping propensity. Howbeit, the point we would here emphasise is that Sir Edward at that time mooted a question which will have a most important bearing upon the concerted action of the Allies in the future trade war.

We have already been compelled to touch upon the anomalous elements of protection which our Allies must purge themselves of to some extent if mutual work and mutual service is to be perfectly accomplished. We have handled the protective character of Italy as gently and suggestively as might be. We could have passed on to a similar critical review of that thoroughly protected country France. And so in the case of Russia.

Many phases of international economic life amongst the Allies will have to be subjected to rectification and renewal before the new footing of commerce shall have completely emerged and have become reorganised. Sir Edward then, in 1914, brought forward a question for the serious consideration of the Government of the day concerning the branches of foreign banks doing business in this country. Included in his survey was the statement that a branch of an English joint-

stock bank could not be established in France without the whole of the bank's capital being subject to taxation. A form of financial protection also prevailed in Russia. Suppose it were desirous of extending the establishment of branches there, the nature of the rules and regulations were of so prohibitive a nature as to similarly render it impossible. While in the interests of our international trade we have been debarred from that freedom of financial and banking extension, which is expedient, foreign banks can open branches here without any let or hindrance at all. All such forms of financial protection must, of course, be entirely eliminated where it will become expedient for Great Britain and her Allies to operate commercially in free and equitable co-ordination.

But all this is by the way. Sir Edward Holden stands for a policy of State assistance, which is inevitably necessary and supremely sound in the strenuous times that are imminent. But what is the case for Sir Edward's most recent suggestion ? As it seems to us, it is an overwhelming one. First, let us reflect that the interests of German institutions for the financing of the Fatherland's foreign trade

have all along been fostered by the German Government and the German banks, and that, on the other hand, neither our Government nor our banks have rendered British trade equivalent assistance. We can claim with certitude that Sir Edward Holden's recent scheme is the first practical effort to adjust that inequality: to give producers here at home a chance of meeting their competitors on level terms. That is not its only advantage. While it brings to the private trader the resources and *prestige* of the State, it still leaves him free to conduct his business, untrammelled by artificial restraints or bureaucratic regulations. We thus have the solidity and strength of the Protective system and the ubiquity and resilience of individual effort. Again, let the experiment succeed, and it is more than probable that other banks—once the advantages of the new method has been demonstrated to them—will be quick to adopt proposals of which they have hitherto fought shy and we may see, as a result of this particular project, the gradual but general initiation of the *banquier* system vivifying, stimulating and quickening the still waters of British banking. It is quite certain that, without

some such State guarantee as Sir Edward Holden has foreshadowed, our bankers will not of themselves initiate a reform so alien to their present methods. There is abundant evidence of this to hand in their reluctance even to consider the feasibility of the idea.

Let us hear Mr. Barrett on the point. "About eighteen months ago," writes that distinguished journalist, "when the institution of a bank to finance British industry on lines approximating to those of the great German banks was being urged, I ventured to suggest that our joint stock banks should themselves provide capital for such a bank, which would be a distinct entity and meet the requirements of the industrial community without imperilling the confidence of depositors in the parent institutions. At the same time such a bank would have the enormous advantage of the intelligence organisations possessed by those institutions. I submitted the scheme to directors and managers of leading joint stock banks, but the replies were none too encouraging. Several approved, but others only saw difficulties, and it seemed fairly evident that, whether good or bad

there were mutual jealousies that made the needful co-operation improbable."

This testimony is conclusive. We may rest assured that without such support from the State as would free them in the initial stages from all risks, our great banking houses would not enter on so complete a reversal of their normal policy.

It is clear, then, that the suggestion which Sir Edward Holden has advanced ought to be pressed on the Government with increasing vigour by the commercial classes, and especially by the export traders of the country. We do not say for a moment that it is the first step to be taken in the campaign of which we are writing. That we described in our last chapter. Our traders have at the outset to secure local representation in the markets we have indicated and in other markets that will occur to them. Once that is secured and they have thoroughly mastered the local requirements of the various districts with which they are concerned, once they have satisfied themselves, alike as to the new openings for British industry, and their own ability to supply on a large scale when industry again becomes normal, then the demand for a State

Guaranteed Bank, as suggested by Sir Edward Holden, ought to become an insistent one, and the matter should be urged most strongly by the commercial classes of these islands on the Government's attention; urged with the energy and vigour that its importance demands.

Germany, it should be noted, is not alone among our trade rivals in recognising the immense assistance that Government subsidies can render, first to the bankers, then to the exporters, and so on to the producers of a country. Even since the war has begun, America, the land of individualism and self-help, has entered on a remarkable development of State activity, which is likely to be followed by epoch-making results. Destined to be one of our greatest trade rivals after the war, she has not only carried out the Holden plan, she has gone beyond that stage and is even now engaged in arranging those very credit facilities on which we have been insisting. While we in England have been discussing the necessity of those facilities ever since the war gave us opportunities that we are still neglecting, Amercia, swift to realise how momentous a gain might accrue to her, entered on the course we are just now

considering within two months of the commencement of hostilities! So long ago as November, 1914, there passed into law an Act known as the Federal Reserve Act designed expressly for the purpose we are advocating, and hailed by Dr. Ewing Pratt, Chief of the Bureau of Foreign and Domestic Commerce, as opening a new chapter in the triumphant progress of that Leviathan state. What has been the result? That on November 24th last the National City Bank of New York organised a great financial corporation of no less than £10,000,000 for the express purpose of the development of that foreign trade, upon the capture of which depends in a large part the destiny of the people during the next half century.

Clearly if the shrewd financiers and most capable Captains of Industry, who have raised the U.S.A. to such a pinnacle of commercial and industrial eminence, find this step necessary, much more must we, who will presently discover that much of our strength has been wasted by wars and expended in avenues that are unlikely to bring us any immediate return. We cannot afford to allow the Holden plan to be jettisoned or permit

this vital matter to be side tracked. It is essential that all men of business training, all patriots, all those who realise the immanence of the situation that is likely to follow on the cessation of the war, should unite in pressing a demand upon the Government for effective action along the lines of State-provided facilities for credit.

But, be it noted, when that point has been won, we are still only at the beginning of the great movement for the utilisation in the service of commerce of the resources of the State. There will still be much that the Government should undertake without any delay. It must organise, and at once, an Intelligence Department that shall be worthy alike of the colossal advantages to be won and of the resources that we can, if we but will it, bring to bear upon the task of their capture. At the present moment British traders are dependent for information as to foreign markets upon our Trade Consuls, some of whom are men of singular devotion to duty and great ability, but who are all hopelessly understaffed, and, in some cases, not even men whose racial sympathies are with Britain. According to Colonel Yates, M.P., " Out of

118 Consuls and Vice-Consuls in Scandinavia and Holland, only 11 salaried and 17 unsalaried were of British descent, while 83 were unsalaried aliens. In Denmark, outside Copenhagen, we have," said the honorary member, " only one Consul who is of British nationality. In our Spanish service," he added, " there are 20 unsalaried aliens."

Mr. Pennefather, M.P., states that before the war, out of 653 of our unsalaried Consular representatives abroad no fewer than 268, or 45 per cent., were of foreign nationality, and of these 44 were Germans or Austrians. In 1913 only eight of our 37 unsalaried Consular officers in Germany were British and 29 were of German nationality. Well may he ask " How can we expect that these men were going to push British interests as against German interests ? It is incredible ! "

Even where the Consul is, as frequently happens, an astute and energetic man of affairs, keen on pushing British trade, he is left with utterly inadequate support and has himself frequently to act as his own clerk and messenger. According to a recent number of *The Financier*, a British merchant at

Petrograd, in a recently published letter, said with reference to that centre :

" The German Consul had a complete administration, with fourteen assistants and sub-agents on commission in every town in the Russian Empire. His central office was informed of the local requirements of every town and village, and duly reported to Berlin, whence it was sent to a specialising firm for negotiation, and, if necessary, backed by a German bank. Our Consul is underpaid, has one assistant and a clerk."

That is a condition of affairs not merely fatal to success but absolutely dishonouring to us as a great, a progressive people ; a condition of affairs that literally cries aloud for amendment and redress, and whose persistence to-day can only be described as disgraceful to a nation to whom commerce is literally the very breath of her nostrils.

## CHAPTER VI

### Wanted, National Economics.

SO far, alike in our analysis of the reasons of Germany's signal success in extending her foreign trade, as in our survey of the ground we must take up to defeat her, we have been concerned largely with questions of grave but still of secondary importance. The facilities for credit that our exporters should be enabled to extend to their customers, the campaign that we should enter on to push the value of our wares abroad; the steps that we should take to equip ourselves with the requisite and intimate knowledge of the particular requirements involved, these considerations, momentous though they be, fade into insignificance when we come seriously to consider the question that at once underlies and overshadows them all. That question may be simply stated.

Let it be clearly understood that it does not matter to what extent the British exporter is able to give credit; it does not matter how well he is represented locally, in the various

markets to which we have directed attention ; important as these things are, there is one great paramount determining consideration. It is this : " Can he produce cheaper than his competitor from Germany or Austria-Hungary ? " If yes, then it is quite certain that the conquest of Germany from a trade point of view is achieved. If no, then, no matter what arrangements he may effect as to credit, no matter what results his organisation can achieve as to local representation, no matter, in effect, what else he can do, whether he can grant long credit or short credit, the decisive advantage in the industrial struggle between Germany and ourselves still remains with the enemy. That factor cannot be too strongly insisted upon. If Germany can produce goods more cheaply to these foreign markets, than we can, then her victory is assured. If, on the other hand, we can produce them, not only more efficiently, more substantially and in better condition than can our opponents, *but for a less price*, in that case the victory in the great industrial struggle will pass to the people of these Islands and not to their life-long and ubiquitous enemies. Hence it is that we are desirous of pointing out to our fellow

countrymen the necessary conditions of victory which must be observed if we are to achieve success.

As it seems to us the State can well prove itself to be the determining factor in this matter. As we have said, the conquest of our trade from Germany is ultimately a matter of cheap production. Now, what has enabled the German to produce cheaply? There can be no question whatever about it that it is largely because he has recognised the enormous, the supreme importance of the part which the chemist has played in modern manufactural production. There is not one single firm in Germany to-day, there is hardly one private trader, certainly there is not one capitalist worthy the name who has not realised the pre-eminence of the chemist in modern business life. Everybody who has studied modern industrial conditions knows that there are thrown away day by day bye-products—fats, secretions and accessories—that, while they may be of trifling value to the business, out of which they are originally produced, may yet prove to be of extraordinary value to industry generally. To determine this fact the analytical chemist is necessary,

and the chemist, unknown to nine-tenths of British manufacturers, is fully established in nearly every German factory, in nearly every German firm, and in nearly every German business that the war has not ruined. It is the function of the chemist to examine the waste from the factories, to analyse, test and turn over all the innumerable bye-products, all the " throw aways " that a factory daily discards in its efforts to produce a given quantity of certain goods. From these bye-products, it is notorious, Germany has built up most successful industries. Out of them she has made literally millions. She has extracted gold from dirt, wealth from refuse. In almost innumerable cases the chemist in Germany has turned a bankrupt business into a thriving concern. Hence it is that some of our ablest business men assert that the chemical utilization of bye-products, and the bringing to bear upon them of highly technical and highly trained chemical experts is of immense importance. Alas, they preach to-day to deaf ears ; the fact remains that we here in England, so far from thus cheapening our production, remain content to allow our bye-products to turn to waste and to leave a

mass of our people utterly uninstructed as to their proper utilization. It is quite true that this fatal indifference to chemical research and its importance is not shared throughout the British Empire. Quite recently the Government established under insistent pressure an Industrial Research Committee to whom it granted the magnificent sum of £30,000! On the other hand, the legislative assembly of the Parliament of New South Wales granted Mr. Hughes, the Premier, the sum of £500,000 for the purpose of establishing and administering an Institution of the Conduct of Scientific Research in its relation to industry.

This shows a lamentable condition of affairs. Great Britain, the richest country in the world, can only devote a few paltry thousands to recovering from the lost products of its industry some of the wealth of the future. Australia, a continent, comparatively poverty stricken, can cheerfully give more than ten times the sum to achieve this golden object.

What is the reason of this discrepancy? Frankly we think it is that Australia has grasped, almost intuitively, the new view of Economics that we have adumbrated in these

pages : the view that the science of wealth should be freed from mere academic labels and unreal distinctions and approached on broad progressive and national lines from a business standpoint. At present little has been heard of this new thought-form. As Mr. Taylor Peddie, its most distinguished advocate, has remarked :

" This new Economic Science has grown upon the world unconsciously, and no one seems to have defined it. At any rate, I have not been able to find any works dealing with the question, and I think we may safely claim to be the first to make the attempt. I can only touch upon it very briefly to-day, but I will be able to give you sufficient data to act upon, to set this discussion in motion, and to justify you, I hope, in extending to us your whole-hearted support.

" I think we are all agreed that the Science of Political Economy (if we can call it a science) as we know it in this country to-day, is a dead science, and it has been emphasised more in recent years by reason of the great advance that has been made in the Sciences of Education, Production (in which is included Industry and Agriculture), Chemistry,

Transportation, and Banking, not only in this country but in America and Germany. I have placed the sciences in what I think is the order of importance.

" Every article of utility that is produced is influenced by these five sciences. For instance, to produce successfully, you must first of all have Education ; secondly, you must have the latest experience and knowledge in method of Production, and also the latest and most modern machinery to assist you ; thirdly, you must have the Technologist or Analytical Chemist to assist you in obtaining the best possible materials ; fourthly, you require the services of the Transportation Companies in carrying or shipping your goods to those who desire them ; and fifthly, you need the Banker or Capitalist to finance your total operations with the greatest possible facility.

" You will, therefore, I hope, observe that if the nation is to advance on anything like progressive lines, the phases of activity I mention should be made as efficient as it is possible to make them. If you adopt and support that policy as the basis of your national business system, you must necessarily become a National Economist.

" If the State, therefore, were to become the guiding or directing spirit, and to place each phase of national activity in its proper relation to the other, particularly as regards efficiency, then whatever portion of the total that manufacturers might consume they could at any rate rely upon having the best possible value for their money. In other words, the State should give direction, both as to object and policy, to our natural tendencies, and not allow them to drift forward in the world of Commerce as an incoherent mass. It must be obvious to you as business men that each phase of our national life is influenced by the weakest member. Further, if the tendency of one phase is towards a course diametrically opposed to that which is being pursued by the remainder, then there must occur a great waste of national energy and wealth."

It is this new economic science—a science that cannot better be described than as " National Economics "—that will ensure victory in the struggle before us. The State must realise that business, commerce, industry are national concerns, and that, while it is futile, and worse than futile, to check, circumscribe and retard the trade by which

the people live ; while it is little short of madness to suppose that State officials can supersede private merchants and traders, or can partake of their keen, competitive " business sense " ; while, in short, the State should leave intact the main activities, energies and inspirations of private businesses, large and small, yet it can perform a most valuable function in bringing to their service resources and reserves of energy that they cannot of themselves possibly command. We have seen how this can be done in regard to the marketing of goods for abroad. We have seen how essential it is that the State should help the British exporter to increased facilities of credit ; how overwhelming is the case for its creating without delay an organisation that shall cover the whole earth and convey to our producers here the requisite information as to local and particular requirements. We have seen also how necessary it is for the State to endow and organise a really live and well-equipped department of physical research and chemistry so that the British trader is no longer at the grave and cardinal disadvantage that we have described. But that is not all. There is much else that the State can achieve without in the

slightest degree hampering the individual or trader, much else that it must, of necessity, undertake if Britain is to win the war that lies before us.

First, then, the State must recognise that the success of our national effort must in the ultimate depend upon the well-being and wealth of the producers. It is quite clear that if the British workman has to compete with skilled or unskilled workers who are able to bring to bear on their occupation a degree of energy, good-will and ability that he cannot command, then we shall be hopelessly defeated in the industrial struggle. Obviously, therefore, it should be the first care of the State, not merely on philanthropic or humanitarian grounds, but simply and solely because of business considerations, to see that the conditions of life among the working-classes are such as will enable them to produce more than their competitors. It is idle to deny that at present the German proletariat is not at an immense advantage as compared with the wealth-producing classes in this country. It is quite clear, for instance, that of recent years Germany has given far more attention to the housing of her working classes than

we have in Great Britain. We are, of course, aware that the movement for housing reform had its rise in these islands. But the fact remains that, while Germany has during the past twenty years devoted a considerable amount of time and attention, to say nothing of money, to the improvement of the housing of her people, we here in Great Britain have failed to keep up the pace we set. Now this is very lamentable from many points of view, but from none more so than the severely business standpoint, which regards the workman simply and solely as an instrument to produce profit. It is quite obvious that a man living, as many of our workmen do live, under debilitating, not to say deplorable, conditions, cannot produce so much during a given period as one who has enjoyed the benefits of fresh and comfortable surroundings. If, therefore, we are going to enter upon the trade war with any sincerity and conviction, we must regard money expended upon housing as a capital investment designed to increase the productivity of our wealth, and we shall no more begrudge its expenditure than we ought to begrudge the purchase of new and more efficient machinery or the

erection of more suitable premises. We may be told that at present the average manufacturer thinks twice and again before he scraps machinery that has served his purpose or enters into possession of more commodious premises. That, we believe, is unfortunately true ; but our answer is that in Germany, to say nothing of America, where the contrary practice is observed the expansion of trade has more than justified the additional capital expenditure involved. It is quite clear that if we are to prove not merely victorious in the struggle that lies before us, if we are even to exist as serious competitors with the United States and with Germany, then it is essential that our ideas about these things must be thoroughly revised. We must realise the paramount necessity of applying the resources of the State in so adjusting the conditions of life and labour that we can attain the utmost from the ordinary human unit. At present it is idle to pretend that we do anything of the sort. It has been fully established that large masses of our people live under conditions that make personal efficiency, or any strenuous and long-sustained physical exertion on their part an impossibility. We have had in this

matter a wealth of evidence. There have been Royal Commissions, Parliamentary enquiries, and House of Commons debates almost *ad nauseam*, but he would be a sanguine man who could persuade himself that there have been any cardinal improvements in this matter of the housing of the people. " Your peasantry," said Charles Kingsley fifty years ago, " are worsed housed than your horses." That is a true bill to-day. In the towns some slight improvement has taken place; here and there an enterprising manufacturer has realised the advantage that would accrue to him and his shareholders by providing his workpeople with superior housing accommodation. But the fact is that if we were commercially alert we should make it our business to see that the improvements which capitalists like Sir William Lever and Mr. Cadbury have organised for their own benefit were made to apply to the community as a whole. It would be probably impossible to measure in mathematical terms the precise advantage that the State would receive in £ s. d. if the majority of its people were comfortably and adequately housed, but of this we are certain, that the increase in our productive power would

transcend many of the most important inventions whose advent has so materially added to our wealth.

There is another matter in which, as it seems to us, it is essential that the State should enter on as regards industry. Recently Lord Milner, in the course of a very remarkable lecture, urged that the State should appear in all future transactions between Labour and Capital as the "Third Partner." He laid stress upon the fact that we were for the first time in our industrial history limiting the return to capital by taxing war profits, and he asked why that arrangement should end with the war, and why the return to capital should not in the future be restricted by the action of the State, which could return a portion of the profits so earned to the workman engaged in the particular industry concerned. That, it occurs to us, is the most pregnant and practical suggestion yet made with a view to approaching a solution of the Labour Question. But whether it is adopted or not, of this we are confident: that some means will have to be found after the war for allaying that constant labour discontent and friction which for five years preceding the

outbreak of hostilities constituted a most serious drawback to our production. If Lord Milner's suggestion cannot be carried out, then it would be well for the heads of our large businesses and trading concerns to see if they cannot devise some means whereby labour can be given an interest or bonus in the receipts and profits of the business. Again let us say that we urge this not because of humanitarian principles, but because it is absolutely essential that certain developments in the labour movement, which cannot be suppressed by legislation, should be guarded against in the near future. Syndicalism, " the sympathetic strike," the action by huge aggregations of wage-earners indiscriminately directed against capital are likely in the future to have a profoundly depressing effect upon the development of British industry unless they are checked, and, so far as we are able to see, the only certain means of achieving this is by giving a wage-earner a direct interest over and above his wages in the prosperity of the business in which he is engaged ; such interest must be of a tangible kind ; that is to say, it must be paid in money and not in scrip or future benefits.

There is a third matter at which we shall have to look very warily once the war is over. The problem of unemployment is one that has frequently beset us in the past, and always to our national detriment. It is obvious that every non-producing man in the country must be a drain on the producing power of those fellows who are employed, and it is quite clear that the less unemployment we have in the Commonwealth the greater will be our ability to compete with our trade rivals. Now it has always seemed to us that in part at all events, this most serious phase of modern industry was largely caused by the neglect of the State to realise the paramount importance of preserving certain special industries at a high level of production ; industries which have a supreme military or naval significance. It is not necessary for us to go over the story of the dismissals from Woolwich Arsenal of the thousands of operatives whose supreme usefulness we only realised after the war had commenced. It is more than probable that the nation has learnt its lesson in this respect, and that for the future we shall find that it will ensure the retention of a vast reserve of workmen engaged

on making munitions against the evil day of war. But we are not sure that this wholesome rule cannot be applied to other industries. It is probable that we shall never again allow the Germans to obtain such a hold as they secured before the war upon the metal industry, to take one example, or the electrical business for another. It is quite clear that, unless the lessons of the war are to be absolutely disregarded by us, then the nation must schedule certain trades which, not merely because of their business value, but on national grounds, should be financed, under State control, by exclusively British capital and maintained at a high level of production whether the immediate demand justifies its output or not. That should be done as an insurance against war. We venture to think that the same arrangement should apply in a large degree to agriculture. We have seen during this war the price of wheat, and of bread, shoot up to famine figures, and this despite the fact that in general the predominance of our fleet has never been more obvious. It is quite clear that had the Government had under their control a reserve of wheat on which they could have drawn as

and when the occasion demanded, those figures would never have been reached, and we should have been spared many exactions and inequalities that have proved grievously oppressive to our people. The case for the organisation of the State Granary used often to be urged before the war; to-day the arguments to be advanced on its behalf are far stronger, and to them may be added another, namely, that the building up of a reserve of wheat, such as we have spoken of, would keep many thousands of small holders on the land and thus further protect us against that unemployment which is likely to prove one of our greatest perils after the conflict in which we are now engaged is over.

Beyond that conflict looms another; more arduous, it may be, more terrible in its exactions, perhaps even more momentous in its results. Let us remember that the soldier fighting to-day in the national cause, with a heroism no words can describe, is at least protected against hunger, and he is, we are all proud to know, well equipped, fired by a fine enthusiasm, sustained by a great faith, capably led and well supported by his comrades. But the men and women of the

future who have to wage the trade war of which we have been writing—what will their fate be if we are unsuccessful? their food, their clothes, their *morale*, how will these contrast with those of "Tommy"? Once they lapse into the ranks of that other army —the unemployed—they will drift aimlessly and hopelessly, without inspiration or leadership, up and down the great industrial backwaters of England, where they will find no use for their skill, no employment for their thews and sinews. Perhaps some of them will look back to the time when they played a man's part in the trenches and wonder why, with its resources and strength, a great nation that called on them when she was at war can find nothing for them to do now that "the piping times of peace" have come. They will seek for any task, however hard, and it shall be denied to them. They will beg for bread for their children and they will beg in vain! The countryside will see the soldier come back to the plough—to learn that there is no field for him to till. The towns and the cities will watch the troops go marching by again, in other processions, this time processions of starveling unemployed—of strong men, who

cannot get work, and who must be policed *lest they take food.* It will not be a nice England to look upon after the war unless we prepare now for peace ; unless we prepare to feed our people, to organise their labour, to market their goods, to fight the industrial conflict upon the winning of which depends perhaps the predominance of Europe. We can achieve victory in that conflict if we set ourselves to the task now, but if we wait, depend upon it the disasters of the present campaign, our failures, our reverses, our disappointments, crushing and humiliating as some of them have been, they will seem very little things to the children, who come after us—to bear the full brunt of our neglect and shortsightedness. They will ask in pathetic helplessness how it comes that the victory their fathers won at last by their blood upon the battlefield has left them only to a servitude which is no heritance ; left them for their birthright the bread of affliction, to be eaten in bitterness of spirit, or with that hope deferred that maketh the heart sick !

## CHAPTER VII

### Community of Interest.

So far we have presented the subject to our fellow business men of Great Britain in a hortatory and even a provocative spirit—and we confess to having deliberately designed to stimulate, and even to sting, our readers into an alert and energetic outlook on the question. The British lion in its feline reposefulness of strength is slow to rouse to his full height of lashing and rampant activity. But when he *is* roused, nothing can resist his masterful and unswerving strength of energy. If anything has proved this it is Britain's rapid change from the lion *couchant* to the lion rampant.

Let us now conclude by briefly visualising those environing circumstances of the enemy, the resultant of the war in its military aspects, which seem to favour and encourage our action commercially. We have shown how, in Germany's astonishing and masterful progress in industry, her great need for credit has been met by a banking system which

ramified to her remotest villages and assisted the smallest trader, farm labourer, or peasant proprietor to develop and secure credit for the humblest exertions of labour and business. But while this wonderful network of banking and credit institutions for the people has been most successful in peace, *it is upon peace that it is dependent for progressive prosperity and solvency*. A large part of Germany's poor has borrowed while the other part has invested. And now hundreds of banks and other institutions of the kind have failed. And the failure of the larger banks frequently indicates the powerlessness of the Reichsbank to assist. Furthermore, thousands of members of the various credit institutions of the people have disappeared in the catastrophe and casualties of war, hundreds of industrial centres are closed down, and export trade is in a state of suspended animation. Similarly the mortgage banks of the middle classes have become dangerously decimated. Mortgages on property have depreciated to the point of invisibility ; they cannot be foreclosed, bonds can find no market. Before the war Germany was mortgaged up to the hilt. She has now borrowings over her mortgages. Interest was formerly

paid by borrowing, and is now paid by more borrowing; until the future has become mortgaged in a measure of untold years. Furthermore, interest is paid by paper, which is itself at a discount in all neutral countries. And through it all public loans have piled up, and credit is defecated to the tenuity of a soap bubble, as Turkey, Bulgaria and other dependents upon the German Empire drain her of the last pennyweight of gold, or strip her of the last shred of credit. Amidst all this collapsing credit Germany has to finance the boom of trade she so confidently anticipates and so feverishly prepares for. Can she do it? Her economic forecast and provision, clever as it was, was contingent upon a brief and brilliant campaign. Its prolongation will most probably be catastrophic for her. We must look to it that we advantage by it.

One powerful factor in the weakening of the enemy as compared with ourselves is that Germany entirely lacks affiliated support. Her Allies are all a phenomenal drag upon her. Great Britain, on the other hand, is entrenched with the immense and unimpaired assistance of her wealthy Colonial Empire. And France alone has evinced unexampled

success in her most recent loan ; while Russia has developed unexpected financial resource. Our own national income is over 2,200 millions. Germany's is a little less. We have expended upon the war, so far, less than one year's income. True Germany has expended no more. But, seeing that she had already expended hugely during 40 years preparation, our own expenditure for the result is comparatively insignificant. The most striking feature in contrast to the national spirit is that, despite our own sudden call upon our utmost physical, financial and industrial resources, there is an entire absence of any symptoms of national distress. Economies and retrenchments we have ourselves persistently preached, and they are becoming increasingly needful, but the comforts of the people still approach to ostentation, and cheerfulness is an involuntary virtue. Our loans are a serious burden, our tax revenues are doubled ; and all this will seriously handicap economic re-adjustments and developments after the war, yet no despondency rules among our financial experts. Our total gold reserves are probably over £200,000,000. Our Bank notes cannot be inflated and

Treasury Notes are convertible into gold at demand. Germany's note circulation equals three times the amount of her gold. When her international trade is resumed the strain upon her tenuous financial resources in the reconstruction of her commerce will be enormous. So far Germany is the only belligerent who discourses peace; her Allies discreetly drag behind in silent sufferance. All exhibit anxiety over the food supply.

Germany has already approached the point of exhaustion in regard to her possibilities of thrift. We have scarcely entered upon them. Our latent powers in this direction should necessity arise, are still very great. What will the position become when the mark has so far fallen that only gold will be acceptable by the neutrals for German needs? Will she turn to her gold reserves for relief? If so, what assets remain to her for exchange for raw materials and for the general promotion of the trade boom? It has transpired that the prolonged and ineffective attack on Verdun was dictated by Germany's leading group of financiers. It is certain that the whole of this district is a field of supply for

iron ore upon which the German Empire must depend.

While the outlook for ourselves is encouraging, the final note must be one of warning. Production and trade during war has its difficulties, but we have become inured to them. Troubles will be increasingly acute when war shall have ceased, and although the enemy will be weighed down with his own, we shall have to squarely face many embarrassments. In the first place as we have already shewn, there will be a steady flow of discharged soldiers from the various foci of military activity to find their places in civil life. Munition workers will be similarly transposed from the centres of supernormal actively to the centres of normal life. The need for the dilution of labour will have ceased, and women will be compelled to adjust themselves to their former phases of domestic, civil, social, or commercial existence. Problems of relief and reinstatement of men who have "done their bit," and have suffered for it, physically or socially, will have to be handled and disposed of. Then economic re-adjustments will press upon our attention and engender irritating conditions. We shall be

deprived by the casualties of fighting of the services of many good and great men. Some depreciation of industrial plant will be discovered. Repair and renewal will be needed. Many will find themselves minus their most cherished securities. Our financial machinery will have suffered disturbance and require restoring to normal requirements. Capital may be in tight places, its mobility difficult, and its cost in interest high. Internal dislocation will be paired with external disturbances through the prevalence of new national trade enmities and their corresponding re-adjustments. And then with all these difficulties of readjustment and reconstruction we must be ready to meet labour troubles and to appease the time-honoured struggle between Capital and Labour !

These things suggest the rugged paths which the commercial wayfarer will have to travel on his way back to the normal and fruitful fields of industry and the fair table-lands of trade. Each in his distinctive sphere of exertion will have to boldly and squarely face his specific problem. But he must extend his vision further than the mere self-sphere of the individual. It must reach out to the

enlarged " self-sphere " of the nation and the Empire. He must be self-reliant but not wholly self-regarding. In this terrible conjuncture of world-forces he must not merely stand for his Empire even. Into his problem will inevitably enter that of those nations which stand shoulder to shoulder with his own for the re-enforcement of that moral law of civilisation, freedom and equity which has been affronted and besmirched by a degenerate and a delinquent race. In the face of so vast a world-problem the energising of Man the Individual must combine with Man the Community. Governments must even combine in the common interests of the race. The ways must be preserved free for the energising of all if attainment is to be the issue. Community of action is the secret of accomplishment. It was George Eliot who said that community of interest is the root of justice, as community of suffering is the root of pity. And community of action is the root of power. Energy of organisation, energy of individual exertion, have combined so far to accomplish miraculous things for the purposes of the War itself. For the Trade War the same potential of dual energy must be deflected and

maintained if we are to once more accomplish in that New World of Commerce which looms before us. And well may Whitman's heroic incitement thrill us at the prospect :

"Years of the modern ! Years of the unperformed !
Your horizon rises, I see it parting away for more august dramas,
I see tremendous entrances and exits, new combinations, the solidarity of races,
I see that force advancing with irresistible power in the world's stage."

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