

FINANCIAL CHAPTERS OF THE WAR

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Financial Chapters of the War by Alexander Dana Noyes

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ALEXANDER DANA NOYES

**FINANCIAL
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BY

ALEXANDER DANA NOYES

AUTHOR OF "FORTY YEARS OF AMERICAN FINANCE"

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PREFACE

THE purpose of this book is to describe clearly, and explain without technicality, the remarkable financial and economic episodes which have attended the European War. The general public understood perfectly, from the very first days of the conflict, that its economic results were certain to be as momentous as its political results. But the most experienced financiers were at loss to say beforehand what the financial character of the war would be. When it began, they found it equally impossible to measure the real significance of the first economic occurrences. It is hardly surprising, therefore, that the general public should have been unable to understand what had actually happened. Financial events were in fact so extraordinary and complicated as to leave the mind of many readers of the news in complete bewilderment.

It is my hope that these chapters may serve to clear up that perplexity. Perhaps no questions have been asked more frequently since July, 1914, than the questions how the fighting nations have been able to raise the \$100,000,000 per day which

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they are spending on war; why the seemingly convincing prophecy of the shortening of war because of economic exhaustion has not been fulfilled; what was the meaning of that "depreciation in the foreign exchanges" of which we have heard so much; whether Europe has lapsed into irredeemable paper currency like that of our Civil War; by what means the United States—largely dependent on Europe, in a financial way, before the war—should so suddenly have acquired the power of paying off its foreign indebtedness, financing neutral nations from its own resources, and lending even to belligerent Europe larger sums than Europe itself had raised for its earlier wars. Along with these considerations came the further inquiries: Is this American war-time prosperity unreal, temporary, and fictitious? Will the conditions of 1915 and 1916 be instantly reversed when war is over? Has New York actually displaced London as the financial centre of the world? On these questions I shall endeavor to throw some light.

It would be presumptuous for any one to claim ability to answer all of them. One reason why this book bears its present title, instead of being described as a financial history of the war, is that the actual and relative importance of many economic phenomena of the period cannot be determined conclusively until the war itself is over.

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But it is possible at least to give to the general public the means of understanding exactly what has happened already. Every reader of history will agree with me that the lack of clear contemporaneous exposition of the financial events of our own war from 1861 to 1865, or, even more particularly, of the great Napoleonic wars, is one of the greatest obstacles to the full historical comprehension of those episodes.

I have drawn freely in this book on my previous discussion of the same subjects in *Scribner's Magazine*, and have also utilized an article written by me last autumn in the *Yale Review*. But with the recent rapid movement of events, economic as well as military and political, it will readily be understood that all previous comment had to be rewritten, and that the greater part of this book should be made up of previously unpublished matter.

A. D. N.

NEW YORK, September, 1916.



CHAPTER I

PRECEDENT AND PREDICTION

BEFORE the European War broke out, the most familiar answer of the banking community, to predictions of such a war, was that the economic consequences would be so terrific as to deter any statesman or ruler from committing his country to them. After the fighting had begun, prediction was quite as general to the effect that the war must necessarily be short, because none of the belligerents would be able to endure the financial strain. In concrete terms, this forecast usually shaped itself in the statement that economic exhaustion could not fail to reach, by the end of 1915 at any rate, so acute a stage as to compel the ending of hostilities.

Both predictions we now know to have been entirely wrong, and they were not more promptly and completely refuted by the course of events than were the prophecies of specific phenomena, military or financial. These facts cannot well be ignored in attempts to forecast the still weightier problems which will arise on return of peace. Prediction of those later results, whether based on