

THE VALUE OF WISE AND FIRM AMERICAN DIPLOMACY.

With the imminence of another American note to Germany, there has been a renewal of the talk about the futility of the process which our Government has been following. We are getting nowhere, some say. Time is merely wasted, and the strain on patience grows intolerable.

The record, however, on examination appears not so barren as these too quick despairers allege. A great deal has been accomplished by the steady representations of this Government to Germany. One position after another the German Government has abandoned or modified, under pressure from the United States. We have attained recognition of the rights of a neutral flag even in Germany's war zone. These were at first denied, but now they are fully admitted.

It is worth while to cast the eye back over the official documents. On February 4, in the original "war-zone" proclamation, "neutral ships" were warned to keep away, as "attacks intended for hostile ships may also hit neutral ships." Our Government, on February 10, sharply challenged Germany's position in this matter, asserting our rights and announcing that it would hold the German Government strictly accountable for any violation of them. The first response was as gruff as von Tirpitz himself, the German Government, on February 18, informing our State Department that if, despite the warning, neutral ships were to be so rash as to enter "these closed waters," "Germany disclaims all responsibility" for such "unfortunate accidents" as might occur to them. But this *non possumus* has since been given up completely. We have had the full admission of responsibility in the cases of the Gulfight and the Nebraskan. Moreover, the German Government has climbed down on the general principle. In its note of May 31 it declared that "the German Government has no intention of submitting neutral ships in the war zone . . . to attacks by a submarine. On the contrary, the German forces have repeatedly been instructed most specifically to avoid attacks on such ships." And in the latest German note we had assurances that "American ships will not be hindered in the prosecution of legitimate shipping, and the lives of American citizens in neutral vessels shall not be placed in jeopardy." It is a decided retreat which American diplomacy has forced upon the German Government. Neutral flags are to be respected

even by the terrorists in the war zone.

The larger question, admittedly, remains deadlocked. For the safety of American citizens on passenger ships under a belligerent flag, Germany has, as yet, refused to give guarantees. Nor has she conceded that the sinking of such unresisting vessels, without warning, is both a clear breach of international law and a crime against humanity. Here is the main and great argument, to the height of which the President must again rise. But it will not do to say that his task is hopeless. Having wrung such substantial concessions from Germany, he may yet secure larger ones. Light on American sentiment, and its significance, has dawned slowly in Berlin, but it has been increasing. And it will not do, judging by the past, to be so sure in advance that further protests and demands by President Wilson will avail naught.

In any event, however, is it right to assert that our protests will have been proved in vain? By no means. The American Government has had, of course, in its notes to Germany certain immediate objects. It has sought redress for injuries. It has asked assurances that they will not be repeated. But over and above all this, the President has been the champion of general rights, and has stood as the defender of neutrals and of the recognized rules of civilized warfare. And who will say that this is of trifling importance, solely because Germany has not so far yielded to our specific demands? Irrespective of that, American diplomacy has made a contribution of the first consequence to the whole idea of international law and its sanctity. This is why a sober newspaper like the *Westminster Gazette* could say of President Wilson's first note on the *Lusitania* that it was the greatest single event of the war. It was, in the first place, the voice of reason and of law making itself heard amid the clash of arms. And, secondly, it was a voice speaking to the future. The war will be over, some day. And then will come the task of redefining and strengthening certain parts of international law. In that great work the United States will have aided enormously by its repeated and consistent assertion of the law of nations. Our diplomatic notes will be cited as leading cases. The position which our Government has taken with so much wisdom and firmness will be of immense influence in any Peace Congress or Congress of the Nations that may be held. What our policy has sought has been not merely the securing of American rights and

the upholding of American dignities, but the safeguarding and the fresh sanctioning of the reign of law throughout the entire world.

THE \$3,000,000,000 BRITISH LOAN.

The announcement that the offer of the new 4½ per cent. British war loan has attracted subscriptions of no less than \$3,000,000,000, is in many ways a matter of interest. We are living in a financial era of large figures. Until this war broke out, the largest single loan ever floated by a European Government was, we believe, the \$400,000,000 French loan of 1871, issued to pay the first instalment of the Prussian indemnity. England had never floated a single loan in any sum greater than the \$300,000,000 issue of 1901 during the Boer War. Perhaps the largest nominal issue was our own Government's 6 per cent. loan of 1862, which aggregated \$515,000,000; but many months were required to get the total sum, and it was placed by an army of canvassers who hunted the whole United States, like book-agents, for customers.

Since the European war began England has placed two loans of \$1,750,000,000 and \$3,000,000,000, respectively; Germany has floated two of \$1,250,000,000 and \$2,250,000,000; France has raised upwards of \$1,000,000,000 on her loans, and there remain the new obligations of Austria, Russia, and Italy. The present English war loan far overtops all others in the sum involved. But the whole series, in England and on the Continent, has been progressive in this regard. Not only the prodigious magnitude of this single borrowing, but the rapid increase in the amount which it has been necessary to raise on each successive recourse to the market, directs attention forcibly to the question what is to be the outcome of this extraordinary chapter in finance.

In order to understand all the aspects of that problem, it is necessary to examine again the circumstances under which this present loan was placed. There were numerous and very unusual inducements for the enormous subscription. Its rate of interest of 4½ per cent. gave a larger return to the investor than any public loan issued by England since the Napoleonic wars. Further than this, the Government pledged itself that, in case of future loan issues at an even higher rate of interest, holders of the 4½ per cents should be allowed to exchange their bonds on equal terms for the new issues. That pledge was not made in

the case of the 3½ per cent. war loan of last November, and it did not of course apply to the British Government bonds outstanding before the war. But the Government, in announcing the present loan, offered to holders of those earlier issues the privilege of converting their holdings, on a basis regulated by existing market prices, into the new 4½ per cents—on this condition, however, that they subscribe in cash for a further equivalent amount of the new loan.

Here was a very powerful inducement for cash subscriptions, even by investors who may not previously have intended to participate. To what extent the \$3,000,000,000 applications were called forth by it, the cable summaries of the subscription have not yet pointed out. If every holder of the old consols or the first war loan had responded, the total cash subscription for that purpose would itself have exceeded \$4,000,000,000. But it is probable that by far the greater part of them could not spare the money for the requisite cash subscription.

Until the returns are classified, however, it will be impossible to say how great a part this special inducement played. Nor has it yet been announced how much has been raised through the recourse, novel to British Government finance, of subscriptions to bonds in very small denominations. That the expedient was productive is plain enough, however, from the Exchequer's announcement that, up to the present date, 547,000 separate subscriptions, made through the post offices for such small allotments, have footed up \$75,000,000—an average application of \$137. This part of the subscription list is still left open.

The larger question, as to the influence upon the general market of this enormous borrowing at so considerable an advance in the rate of interest, remains exceedingly obscure. In its immediate consequences, the subscription to the loan has caused a fall of 2 to 5 per cent. in nearly all other high-grade investment bonds dealt in on London's Stock Exchange. This was clearly due to realizing on these holdings, to raise the funds for subscribing to the 4½ per cents. The operation has also dislodged substantial amounts of English holdings of American stocks and bonds, of which \$75,000,000 to \$100,000,000 are believed to have been sold on the New York market since the new British loan was announced. It is not clear to what extent this movement will be continuous. Subscriptions made with a view to converting consols and the older war loan

must be paid in full in cash, and these payments may have been largely made at the earliest date assigned—July 20—because a discount of 4½ per cent. per annum on the price is allowed for payment in full. But the regular payments of instalments occur at fortnightly intervals until near the end of October.

Each of these huge European war loans raises again the question how long and under what conditions this unprecedented absorption of capital in war can be continued. Since the process is not drawing on an inexhaustible stock of available capital, the difficulties in the way of future loans, and the necessity for fresh inducements of some special sort, are likely to be persistent. Yet the problem, though differing in degree from all previous experience in the finance of war, does not differ in kind.

In 1797 Great Britain's public credit and financial resources seemed to be at the lowest ebb; yet in the seventeen subsequent years of the Napoleonic wars, the Government raised not far from \$2,000,000,000. Our own Government's experience in the Civil War is a case very much in point. Last week one speaker in the House of Lords warned England that, even if peace were to be restored by the end of March, 1916, the national debt would have reached such a total that taxation on the present basis would fall by \$70,000,000 to meet the annual interest on it. In our own Civil War, however, the Government's total ordinary revenue, in 1862, was \$52,000,000, and the charge for interest on the public debt in 1866 was \$133,000,000. But between 1862 and 1866 additional taxation had increased the annual revenue to no less than \$520,000,000. This is what England also will undoubtedly have to do.

WARFARE VERSUS TERRORISM.

It would hardly be possible for an international issue to be more sharply defined than that between the American and the German Governments. Two recent developments tended in some degree to soften the character of the immediate situation—the statement concerning the attempted minimizing of destruction of life in recent submarine attacks on merchant ships, and the apology for the torpedoing of the Nebraskan. But the issue of principle remained precisely what it was. And that issue has now been brought home to us once more, as acutely as ever, through the attack on the Orduna. It seems plain that, but for

good navigation and good fortune, the slaughter of American citizens on the Lusitania would here have been repeated, on a smaller scale, but without even the possibility of the pretexts resorted to in the Lusitania case, since the Orduna was westward bound, and had no war supplies on board.

Our Government stands for rights of neutrals in time of war which, till now, no nation and no writer upon the law of nations so much as thought of questioning. And these rights are not a matter of degree, a question of more or less, an affair connected with complexities of geographical situation or of the relative position of the combatants in the course of a war's progress. The right of neutrals to travel upon the high seas in merchant ships, whether of neutral or of belligerent nationality, without having their lives put in danger by any wilful act of war, is but part of the immunity attaching to all non-combatants on board such ships. The officers and crew, though of enemy nationality, are held safe from attack so far as their lives are concerned; the risk involved in their enterprise is a risk of property only. When Americans speak of the killing of a hundred of their fellow-citizens on the Lusitania as murder they do so because it was not an incident of legitimate war, but an act from beginning to end in clear violation of one of the fundamental rules of warfare.

The position taken by President Wilson rests squarely on this foundation. Consider what would be the logical and inevitable effect of abandoning this principle of international law. That effect can be put almost in a word. The difference between the accepted rules and those which the German Government asks us to agree to is the difference between warfare and terrorism. Commerce is lawfully subjected in war to such hindrances and losses as it may be within the power of the naval forces of the enemy to inflict; the purpose of the new plan proposed by Germany, and actually put into practice by von Tirpitz, is to paralyze all commerce with the enemy nation through the operation of terror.

It happens that during the past week or two an interesting sidelight has been thrown upon this matter. A considerable number of cases have been discovered of the placing of bombs upon merchant ships sailing from New York. The bombs did not work the mischief intended. But, as has been pointed out by one of the shipping men, "the failure of the bombs to explode cannot be considered complete failure for the bomb-planter, for, in our opinion, their scheme is de-