CHAPTER XI

CONFLICTS OF HIGH FINANCE

The Deutsche Bank rapidly undermined French and English influence in Turkey and the Near East. For England and France had been the favored nations in Turkey. England exercised a protectorate over the "Sick Man of Europe," and her bankers and business men had built up large interests there.[1] France was the popular nation. The young Turks were educated in Paris and French was the official language of the country. There were from six to eight hundred French schools in Turkey as opposed to a dozen German ones, while scholarships by the hundreds were awarded to Turkish students for study in Paris. France has always looked upon the Near East as her sphere of financial influence, just as England has looked upon it as her sphere of political power. A great part of the foreign loans of France are in Mo-

[1] For discussion of the interests of England in Turkey prior to the advent of Germany, see *Quarterly Review*, October, 1917, p. 491.

hammedan countries. Three-quarters of the foreign capital in Turkey and 55 per cent. of the Turkish national debt is owned in France. The banking in the Balkan states was also largely under French control, while the great investing institutions of Paris maintained branches in these states. The French have long been ascendant in Syria. They built the Syrian railroads as well as other undertakings of a quasi-public character. French loans and investments in Turkey and the Balkans were estimated at $1,200,000,000 at the outbreak of the war. British investments in public funds, in railroads, and in mines in Turkey, Asia Minor, and the Balkans are also large.

The interests of the financial classes, and especially of the bankers of Great Britain, France, and Germany are closely interwoven with the imperialistic activities of these countries. All of the Powers have been close to war on several occasions over economic conflicts. The Morocco incident of 1911 had its origin in the struggle for concessions, privileges, and loans. Russia went to war with Japan over economic claims in Manchuria. The Boer War was brought about by promoters and speculators in the diamond and gold mines in the Transvaal. China was near dismemberment in the interest of concession seekers and financiers after the Chinese-Japanese War. Even the United States was close to serious trouble with Germany as a result of the Venezuela incident, when the Kaiser threatened to send a fleet to Venezuelan waters to enforce his demands.

It is impossible to know the extent to which financial conflicts in the Near East contributed to the war. It is, however, no exaggeration to say that the Foreign Offices are deeply interested in the investments, trade, and economic interests of their citizens. When one considers how intimately the Deutsche Bank, the firms of Krupp and Mannesmann Brothers, the railroad-builders and traders are merged into the German Empire; when one contemplates the identity of the personnel of the investors, bankers, railroad-builders, and mine-owners of Great Britain with the members of Parliament; when it is considered how often the French Foreign Office has served the big financial institutions of Paris, it is easy to see how the economic and financial interests of these countries become a question of national honor and a conflict of high finance becomes an issue of political concern.[1]

Just as trade and commerce are at war all over the world, so the investing classes and banks, with branches in distant parts, have recorded the same economic conflict. In the Balkans, in Turkey, in Syria, and Asia Minor, the Deutsche Bank and the French and British banks were seeking concessions, mining privileges, and contracts from the entrance of Germany into Turkey in the eighties down to the outbreak of the war. These conflicts were registered in the Foreign Office; they formed the subject of diplomatic controversy; they were voiced in Parliaments and the press. A great part of the diplomacy of the past generation centres about the activities and intrigues of investors and bankers whose investments amount to many billions of dollars.

The Deutsche Bank, like the Bagdad Rail-

[1] The final negotiations over the Bagdad Railway between England and Germany in Berlin in June, 1914, indicate the elaborate care taken by the Foreign Office to protect and promote the interests of concession seekers and traders, oil interests, rights of control of transportation on the rivers, development projects, docks, and other activities of investors. See *Quarterly Review*, October, 1917, "The Bagdad Railway Negotiations."

way, disturbed the old equilibrium. It challenged the existing economic interests of England and France. And German finance was thorough; it was mysterious; it was insidious. It had the financial power of Germany at its back. It was frankly aided by the Foreign Office and the most skilful diplomats. Operating in a thousand secret ways, it made rapid headway not only at Constantinople but all over the Turkish Empire. German bankers were followed by representatives of German manufacturers. Soon German goods began to crowd out the products of France and Great Britain. English exports to Turkey in 1898 amounted to $51,400,000. German exports to Turkey at that time were but $2,180,000. In 1911 English exports were $2,750,000 less than in 1898, while German exports were $24,650,000 more than they had been thirteen years before.[1] The Bagdad Railway was also

[1] Describing the methods of the Deutsche Bank in Turkey and the difficulties of British traders in competition with the German, an Englishman in Turkey, writing in the *Quarterly Review*, says:

"The Deutsche Bank and its connections, and, for the matter of that, other German banks, may be compared to a big cobweb, of which the centre is Berlin or some other spot in Germany, with immense threads stretching out all over the world in a crisscross a menace to French investments in Russia, said to amount to $3,000,000,000. For the railway was a wedge between the two countries.

The economic life of Russia was far more seriously menaced. Russia had long been ambitious for the Dardanelles. The Dardanelles were her outlet to the Mediterranean. And access to the seas is necessary to enable her to market her wheat, oil, and timber, of which she has an abundance and of which western

network—always the web, but always German. Did a merchant wish to do business, the bank would find him an agent in the country. The agent would be some one, of course, probably a German or Austrian, recommended by the local branch; and, if he was a native agent, he would be promised the bank's financial support if he would bring over his clientèle or portfolio of customers to the German merchant and throw over his British houses. The parties, that is, merchant and customer, would soon be in communication through the agent. Did the German merchant want to be financed? That would be easy. The bank's idea of the merchant's dealings with the customer would be so much against the invoice and bill of lading, so much by a three months' bill, and the balance in a six months' bill, or some such term, perhaps of longer date. The bank would even offer to take charge of the whole matter from first to last, and, if the merchant desired, would finance him up to 70 per cent., or 80 per cent., of the amount against the bank's receiving the bills of lading or other securities. If the German merchant were the creditor pure and simple, the local buyer might give trouble: he would most likely pay the amount of cash against the bills of lading of the goods, in order to get possession of them, but he might refuse to meet the first bill or the second on the ground

Europe is in great need. Moreover, Russia is a debtor nation. She has borrowed heavily, especially from France, to which country she has gone not only for money with which to build her railroads but for military assistance as well. And Russia pays the interest upon her debts by the export of raw materials, especially wheat. She cannot pay it in gold. She has to exchange her wealth which is converted into gold in the markets of the world. This

that the goods were not up to sample, or on one of the thousand and one pretexts which a debtor will raise when his creditor is many hundred miles away in another country. But, once the transaction gets into the hands of the bank, a powerful bank on the spot, he would be a brave debtor who dared to refuse to honor his bill of exchange on presentation for payment by the bank. He would have to have a very good excuse to venture on such a course. If it was a genuine claim, it would be attended to by the bank, with firmness and justice to all parties; otherwise he would incur the risk of a lawsuit, with all the influence of the bank, embassy, and consulate against him, the cutting off of his credit, the impossibility of doing trade with Germany or even with other countries, as he would be blacklisted with all the banks. The merchant could, therefore, in most circumstances get time if he really required it, a renewal of one of his bills or more, but in return he would have to give further orders or make other concessions. Meanwhile the manufacturer got his money and set out to get further orders and to provide further merchandise for the customer, perhaps with the encouragement of the bank, but always under its advice and protection, and with the aid of its agents.

"It is not proposed here to draw comparisons between this is one reason why a free outlet to the seas was so necessary to Russia. Far more important, Russian industrial development is dependent upon free contact with the outside world. She must have a market in which to buy for her 180,000,000 people of whom less than 5 per cent. are engaged in industry. The great majority of the Russian people are peasants. And they buy in the English, French, American, and German markets. Should Germany control

system and that of British banks. The nearest approach to the German system is that, when the British merchant gives credit to oversea customers, he sends the drafts or bills of exchange for acceptance or presentation through his own bank, say, at Bradford, which institution hands them to some other institution in London, which in turn hands them to the agency of a foreign bank and later they are presented. If the bills are paid, well and good; if they are not paid, they are probably referred for instructions or they are protested and returned to England, and weeks and months are lost over disputes, probably ending with a lawsuit, in which the manufacturer is at a great disadvantage. In such a case, the merchant, hundreds of miles distant from his customer, is to a great extent dependent on his agent. The bank's action is a pure banking action, a mechanical form; and, although it may not suit the customer to have his bills protested, yet he will put forward a sufficient excuse at the time of 'protest' in order to cover himself as against the bank, and the bank is no further interested in the matter. The agent, too, may not be quite straightforward; and there is no bank to control him as the German bank controls agents recommended by itself."—"German Methods in Turkey," *Quarterly Review*, 1917, p. 303.

the Dardanelles she could compel Russia to buy exclusively from her. She could blockade her from the seas. When it is considered that the foreign trade of Russia (1914) was in excess of a billion dollars it is apparent how valuable the control of this trade would be to a nation organized as is Germany.[1]

Thus, the Bagdad Railway and German penetration into Turkey threatened to end the economic freedom of Russia. It ended her plan for the control of Constantinople and the Bosporus. It ended her hopes in Asiatic Turkey, especially in Armenia where she claimed "interests" even though they had never ripened into possessions. The railway was also a menace to Russia's back door by way of the Caucasus while the branch line to Persia threatened her influence in that country as well as the very valuable oil and other concessions secured in 1907 and 1912, when Persia was divided into spheres of influence between Great Britain and Russia.

The economic and financial interests of Eng-

[1] This was obviously the purpose of Germany in creating the buffer states on the Black Sea and the Baltic, which under German control would exclude Russia from contact with the outside world except through German-controlled channels.

land, France, and Russia in this part of the world were all in serious peril by reason of German ascendancy in Turkey. The trade, commerce, and investments involved was not far from $10,000,000,000, the investments alone being in the neighborhood of six to seven billion dollars. The foreign trade of Russia amounts to a billion dollars a year, while that of Turkey and the Balkan states is $800,000,000 more. The total foreign trade of the Mediterranean countries (1914) was about $2,400,000,000. Including the Mediterranean trade of Russia and Austria-Hungary it is very much more.