

## THE ECONOMIC INTERESTS INVOLVED IN THE PRESENT WAR.

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[Read, Friday, April 30th, 1915.]

Adam Smith, in his final chapter, treats of Public Debts ; he points out why the sudden and great expenditure on warfare is always met by borrowing instead of by increased taxation: "By means of borrowing," he says, "the governments are enabled, with a very moderate increase of taxes, to raise, from year to year, money sufficient for carrying on the war ; and by the practice of perpetual funding, they are enabled, with the smallest possible increase of taxes, to raise annually the largest possible sum of money." He proceeds to give his well-known argument that it would, in the long run, be much more economical to the community to meet war expenditure by taxes raised within the year rather than by funding. I do not now enter on that argument. War expenditure has always been met by borrowing, and during the continuance of the war the system of funding has great immediate advantages. It is only after the war—after the money has been expended—that we discover, when it is too late, the greater economy of the other system. "Were the expense of war to be defrayed always by a revenue raised within the year, the taxes from which that extraordinary revenue was drawn would last no longer than the war. . . . War would not necessarily have occasioned the destruction of any old capitals, and peace would have occasioned the accumulation of many more new. Wars would, in general, be more speedily concluded, and less wantonly undertaken. The people feeling, during continuance of war, the complete burden of it, would soon grow weary of it ; and government, in order to humour them, would not be under the necessity of carrying it on longer than it was necessary to do so. The foresight of the heavy and unavoidable burdens of war would hinder the people from wantonly calling for it when there was no real and solid interest to fight for."

It is in connection with this argument that Adam Smith writes a passage which I want to quote in full. Recollect that the following words were written in 1776:—

"In great empires, the people who live in the capital, and in the provinces remote from the scene of action, feel,

many of them, scarce any inconvenience from the war, but enjoy, at their ease, the amusement of reading in the newspapers the exploits of their own fleets and armies. To them this amusement compensates the small difference between the taxes which they pay on account of the war and those which they had been accustomed to pay in time of peace. They are commonly dissatisfied with the return of peace, which puts an end to their amusement, and to a thousand visionary hopes of conquest and national glory, from a longer continuance of the war."

Now, I suppose, nobody could honestly write these words of the present time. The circumstances of to-day are vastly changed from those of Adam Smith's day. In 1776, Great Britain with less than eight million of people was raising an ordinary revenue of about ten millions sterling, and the public debt, funded and unfunded, was £129,000,000. To-day our Population is six times larger, our Ordinary Revenue is twenty times larger, and our Public Debt, before this War started, was less than six times larger than when Adam Smith was writing. If our Debt rose from the present 700 millions sterling to bear to our Ordinary Revenue the same proportion as in 1776, our Debt would stand at 2,600 millions sterling. *Absit Omen!* But obviously the scale of things to-day admit no parallel with that remote period. Nor is there any parallel with the nature and scale of warfare then and now. Take the American War of 1776-1781: The British Army in America in 1781, when Lord Cornwallis surrendered at Yorktown, numbered about 30,000 men, and was in fact not British at all. It consisted of Hessian and other soldiers bought in Germany, for whom the British Government paid the following sums to German Princes—the figures are from Mulhall's *Dictionary of Statistics*, 4th Edition:—

	Men.	Sum £	£ per Man.	Perished in the war.
Hesse, ...	16,992	2,600,000	153	6,500
Brunswick, ...	5,723	780,000	137	3,015
Anspach, etc., ...	6,451	1,747,000	275	2,328
	<u>29,166</u>	<u>5,127,000</u>	<u>175</u>	<u>11,843</u>

We can understand why Adam Smith talked of people watching the war as amused spectators under those circumstances. But to-day it is a different matter when our own kith and kin and our own personal friends are doing the fighting.

No doubt, Adam Smith on the economics of war expenditure may be thought out-of-date, since both the

nature and the circumstances of warfare are so greatly changed since his day. But whom can we quote? It is very remarkable that this subject has not been treated in any English work on political economy since Adam Smith. The Cost of Defence receives a chapter in Bastable's work on "Public Finance," because it is the largest item in the National Budget. But on the important and difficult subject of the economic effects of the present military systems of the Continent and of the British Empire our economists have been entirely silent. Even the study of Public Finance in our country is neglected to an astonishing extent as compared with the attention given to it in most European countries. In view of the burdens that will be thrown on our Finance by the enormous expenditures necessitated by the present war these subjects must now assume a national importance, and this neglect of them is already become a grave danger to our commonwealth. The proper utilisation of our nation's resources cannot be secured by a handful of uninstructed amateur financiers in a House of Commons that has abandoned the criticism of Cabinet proposals, and by a group of Treasury officials who—in place of controlling and economising our finances—have become the secret architects of new departments of public expenditure.

It is quite impossible at the present stage of the conflict to form even approximate estimates of the cost of the present war. We may indeed compare immediate expenditure with the total money cost of previous wars, and the comparison at once shows that we have entered upon a new epoch where the ship has to be navigated through an uncharted sea far out of sight of all the old landmarks.

The economic consequences of warfare on the present scale cannot be measured by Parliamentary estimates. The loss of productive energy and of capital caused by war must far exceed the pecuniary expenditure of the belligerents. Even if we include the additions made necessary to the expenditures of neutral Governments, we fall short of the measure of the cost. It includes also the material destruction on a great scale, the interruption of trade, the cessation of some industries and the diverting or transformation (for temporary purposes) of many other industries, the loss of great numbers of competent workers by death, or by disablement following wounds or disease. The economic losses increase in kind as well as in degree out of proportion to the duration of the war; and it becomes doubtful if they are greater on the defeated more than on the victorious side. There may ultimately be no decisive ending, merely a stalemate, caused by complete exhaustion, and a horrible pause while preparations are

being made to renew the unavailing contest. The limitation of the area of the warfare has ceased to be any economy of the cost: in truth, to enlarge the area by bringing in the aid of neutral countries as belligerents really offers the most likely prospect of shortening the duration of this unparalleled war.

Careful estimates made during September went to show that for the four Great Powers alone the war was costing £8,000,000 a day. For the five months to the end of 1914 these four Powers had spent over £1,260,000,000. The figures cover only the actual money raised to keep the armies of those nations in the field. This leaves out of account what Austria, Serbia, Belgium, and Japan have spent and are spending. It does not include expenses in Africa, nor on the outer seas, nor the pay and equipment of our own Indian and Colonial contingents; nor the liabilities assumed by our own Treasury to counter the financial crisis caused by the War in August last, and to start the wheels of the mechanism of foreign remittances which had abruptly stopped when Great Britain became a belligerent. The figures do not allow anything for the waste of life and material, the destruction of cities, towns, villages, fortresses and battleships, nor the trade losses involved.

The following telegram from Paris was copied from the *Irish Times* of Saturday, April 17th:—

#### COST OF THE WAR.

Writing in the *Humanité*, M. Compère Morel, basing his statements on the works of well-known economists, says it is admitted that the cost of the maintenance of each soldier amounts to about f.10 50c. per diem.

Great Britain, France, and Russia having 10 million men under arms, and Germany and Austria ten million, there is, therefore, a daily cost of 220,000,000 francs (£8,800,000).

Adding to this sum 10,000,000 francs (£400,000) as cost of Belgian, Serbian, Turkish, and Japanese armies, the daily total of 230,000,000 francs (£9,200,000) is reached.

Fifty-five thousand million francs (£2,200 millions sterling) have, therefore, been spent in eight months.

M. Morel points out that with the addition of material losses sustained in Belgium and East Prussia, commercial and maritime losses, and the productive capacity of

men who have fallen on the battlefield, he estimates in conclusion that the war has up to the present cost 146,675,000,000 francs (£5,867 millions sterling).

And besides this expenditure on actual warfare there is a vista behind us of the expenses of the preparations for this present conflict. Taking the thirteen years between 1901 and 1914, the following Table shows what Great Britain, Germany, France, Austria-Hungary, and Russia have spent on their armies and navies—a total little short of £4,000,000,000, spread over thirteen years, viz. :—

	ARMY.	NAVY.
	£	£
Great Britain, ...	502,173,713	524,559,600
Germany, ...	567,254,780	218,464,985
France, ...	471,177,488	200,253,320
Austria-Hungary, ...	186,229,937	32,001,144
Extraordinary, ...	16,607,000	5,041,166
Russia, ...	683,178,901	198,416,872
Extraordinary, ...	296,951,723	13,044
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	2,723,573,542	1,178,750,131

(*Why the Nations are at War*, by Morris and Dawson, 1915. Harrap and Co.)

Now let me set against these huge figures two others by way of comparison. In Mr. A. J. Wilson's little book, "The National Budget," he collected in an Appendix the cost to Great Britain of all the wars that single Power had waged from 1688 to 1881: the main source from which he drew the figures being the vast Appendix 13 which Mr. Chisholm added to the great Blue-Book published in 1869 on the Public Income and Expenditure of Great Britain and Ireland from 1688 to 1869. The Grand Total reached by Mr. Wilson's calculation (combining totals for 16 wars) was £1,258,681,000. In this the great war with France, 1793-1815, figures for £831,446,449. One-third of this sum was merely bad finance in floating loans. This same war cost France from 1791 to 1815 a total of only 255 millions sterling,—truly, a remarkable figure.

A more comprehensive figure for comparison with the present scale of war expenditure is to be found in Mulhall's "Dictionary of Statistics" (any edition), where he gives a Table showing the cost both in Government expenditure and in loss of men of all the larger wars of all

countries fought from 1793 to 1877: the total cash expenditure was 3,047 millions sterling, and the total loss in men was 4,470,000. This is Mulhall's Table:—

## WARS SINCE 1793.

Date.	Belligerents.	Expenditure, Millions £	Loss in Men.
1793-1815.	England and France,	... 1,250	1,900,000
1828.	Russia and Turkey,	... 20	120,000
1830-40.	Spain and Portugal (Civil),	... 50	160,000
1830-47.	France and Algeria,	... 38	110,000
1848.	Europe (Civil),	... 10	60,000
1854-56.	England, France, Russia,	... 305	485,000
1859.	France and Austria,	... 45	63,000
1863-65.	United States (Civil),	... 740	656,000
1866.	Prussia and Austria,	... 20	51,000
1866.	France and Mexico,	... 15	65,000
1864-70.	Brazil and Paraguay,	... 48	330,000
1870-71.	France and Germany,	... 316	290,000
1876-77.	Russia and Turkey,	... 190	180,000
		3,014	4,470,000

It could be shown that Mulhall's Table requires many small additions; but for our purposes it is quite complete enough. It shows us that the expenditure on the present colossal war during the first eight months, August to March inclusive, must have already exceeded the total cost of all these wars in all countries from 1793 to 1877.

Having illustrated by these examples the unprecedented scale of the expenditure caused by the present war, it is necessary, in order to view the matter in a true perspective, to adduce some facts on the other side of the account, *i.e.*, which exemplify the economic resources that enable the world to endure this strain. Two facts mainly account for the huge dimensions of the present struggle. (1) *The great number of first-class Powers engaged at the same time.* The great expenditure has, therefore, a great number of broad backs to bear the financial burden. This eases the strain, for each Power has to deal only with its own share of the expenditure. But, of course, it does not diminish the impoverishment of Europe; and the power of any one country, such as our own, to recuperate in time of peace after the war will be diminished by the difficulty of developing mutual trade with other countries while they still suffer from this impoverishment. Take for example, only the belligerent countries: the share of British Exports taken by them (on an average of three years, 1910-12) was as follows:—

Germany took 38.9 millions sterling; France, 24.4; Belgium, 14.8; Russia, 13.2; Japan, 11.4; Turkey, 8.7;

Austria-Hungary, 4.5. Total for these, 115.9 millions sterling. Other Foreign Countries, 182.2; British Possessions, 159.2. Total Exports of United Kingdom, 457.3 millions sterling.

We learn, in particular, that Germany is the biggest single purchaser of British Exports after British India (which took 51.9 millions sterling): so that the impoverishment of Germany by this war will affect the future prosperity of British Exports more than that of any other belligerent country. However, when confronting the huge figures of war expenditure, we know that we have to deal with our own expenditure only. (2) *The great size of the armies which these Great Powers have brought into the field.* The five Great Powers have twenty million men under arms; and Belgium, Servia, Turkey, and Japan must have another half-million. It is almost useless to quote the figures of any previous wars. For the Crimea (1854-56) with the English, French, Turk, and Russian forces a total of 1,460,500 men took the field. For the American Civil War (1863-65), in the Northern Army alone 2,336,000 men took the field: the figures in the Southern Army are not known. For the Franco-German War (1870-71) 710,000 French and 1,003,000 German soldiers made up a total of 1,713,000 men under arms. (3) *Other factors exist to explain the immense scale of expenditure.* Such as the immense areas over which the devastation of the warfare is spread; the increased expensiveness of munitions of war, and the prodigality with which these are used up. The cost of the Naval operations between the belligerents is also incalculable at present, but must be a large figure.

Is it, then, the case that this huge expenditure is too great to be endured, and that the war must result in the Bankruptcy of Europe? What are the resources of Europe out of which this financial drain can be supplied and supported?

The resources of a community may be quantitatively valued in two ways, viz. :—(1) Find the *aggregate income*, or yearly earnings, of all its members: it will enable us to judge what amount of State Revenue it can provide. (2) Find the *aggregate wealth*, or combined value of the estates, owned by its members: it will enable us to judge what amount of State Debt it can afford to incur. The expenditure on warfare ought to some extent be defrayed out of Revenue, *i.e.*, increased taxation; it will certainly to a great extent be met by borrowing, *i.e.*, addition to Debt. Thus Mulhall (in his "Industries and Wealth of Nations," 1896) has shown that the actual cost to Great

Britain of the French War, 1793-1815, was 1,100 millions sterling: of which 45 per cent. was met by means of loans and 55 per cent. by taxes. But, of course, a war extending over a duration of twenty years can be paid out of revenue much more easily than a war extending over a couple of years.

Confining the inquiry to our own country (but remembering that a similar investigation with approximately similar results might be made for each of the Great Powers who are now belligerents), can we form a reasonable estimate (1) of the aggregate wealth, and (2) of the aggregate income of the people who constitute the United Kingdom? We can, and the two things have been done. I will give you the results in a moment. But it is also my wish to give you some confidence in the results by showing how such results can be definitely reached. The expenditure to be met is definite enough: it is desirable to make the resources also equally visible by definite evidence.

Take, then, the aggregate wealth of the United Kingdom. Death Duties are imposed at prescribed rates varying with the *value of the estate* left by the deceased. Hence this value is known and placed on record: the "Statistical Abstract" gives for each year the aggregate value of all estates valued for probate purposes, either (1) in England, or (2) in Scotland, or (3) in Ireland. It also tells us the number of Deaths, Adults and Children, which occur each year either (1) in England, or (2) in Scotland, or (3) in Ireland. Pick out these two sets of figures for any five recent years, say, 1908-9 to 1912-13 inclusive: and strike the average of both for the five years. We thus find that on an average England has 507,307 Deaths, and the Estates valued for probate aggregate to £235,737,000: so that the property of the deceased persons is at the rate of £464 per head. Presumably the living population is as rich as those who are ceasing to live: the 36,919,000 living persons in England also own estates averaging £464 per head. Hence, the aggregate property in England is measured by 36,919,000 multiplied with £464, viz., £17,130 millions sterling. In the same way, the 73,760 persons who die in Scotland leave estates whose aggregate value for probate purposes is £30,571,000, i.e., £414 per head. Therefore the 4,733,000 living persons in Scotland probably own £414 per head, i.e., the aggregate property in Scotland is 1,960 millions sterling. Lastly, in Ireland 74,284 Deaths and Estates aggregating in value £13,242,000 (viz., £178 per head) show that the 4,383,000 persons now living in Ireland have probably £178 per head. Hence the aggregate property in Ireland is 780 millions sterling. Combining the three Kingdoms, we find that the aggregate

wealth of the United Kingdom was 19,870 millions sterling at the epoch represented by the period 1908-9 to 1912-13. At the present moment it is certainly above 20,000 millions sterling.

Now a similar calculation can be made for any other epoch if only the valuation of estates (either for Death Duties or for Income Tax Assessments) are known and recorded. We can thereby show what the aggregate wealth of the United Kingdom has been at different dates. The following are specimen figures, viz. :—

AGGREGATE WEALTH OF UNITED KINGDOM  
(Millions Sterling).

		England.	Scotland.	Ireland.	United Kingdom
1860	...	6,061	648	497	7,206
1895	...	10,062	1,094	650	11,806
1913	...	17,130	1,960	780	19,870

We conclude that 20,000 millions sterling is a reasonable figure for the United Kingdom alone, as regards aggregate wealth.

Turning now to the Aggregate Yearly Income of the people of the United Kingdom the results arrived at by statisticians for various dates may be simply stated as follows :—

Date.	Million £.	Calculator.	Population.
1812	404	Mulhall	18,500,000
1836	600	Mulhall	25,000,000
1860	938	Mulhall	29,000,000
1867	814	Dudley Baxter	30,200,000
1875	1,200	Robert Giffen	33,000,000
1885	1,350	Robert Giffen	36,300,000
1895	1,425	Mulhall	39,100,000
1903	1,750	Robert Giffen	42,200,000
1903	2,000	A. L. Bowley	42,200,000
1913	2,200	(estimated)	46,000,000

As the rate of interest declines, a larger aggregate wealth accompanies a given aggregate income: 7.7 times the Aggregate Income in 1860 covered the Aggregate Wealth; it took 8.3 times in 1895; and probably 9 times in 1913. Thus 2,200 millions sterling of Aggregate Income probably measures the position in the United Kingdom at present, as regards annual income.

What has been illustrated here for the United Kingdom is true of all the great belligerent Powers. If the progress of scientific inventions has added greatly to the costliness of war material, clearly it has at the same time given such

new tools to productive industry that industrial production has also enlarged enormously, and we are better able to endure the expenditure without extra exhaustion.

Of all the economic interests involved in the present war, the most important for the civilized world is dependent upon the mode in which the war comes to be terminated. An indecisive ending that settled nothing may easily involve the destruction of civilisation in Europe. A decisive ending that meant the dictation of terms by the Victors which embody an injustice to the Vanquished may be nearly as calamitous to mankind, though the fatal event be for a time deferred.

Truth crushed to earth shall rise again,  
The eternal years of God are hers ;  
But Error wounded writhes in pain,  
And dies amid her worshippers.

Conversely, the fortitude that endures undaunted the strain of such an effort as the present conflict imposes on all the belligerents can spring only from the consciousness that there is truth on your side—such truth as is worth any sacrifice. What, then, if there be large elements of truth on both sides? In that third case the war will prolong its duration until the economic pressure forces each party to recognise that there is a mixed issue to be worked out into a solution; and, after the terrible price has been paid, a mutual understanding will establish a peace satisfactory to both parties. *The War will have then given interdependence and peace, not independence and war, as the ultimate destiny of Europe.*

Every Great Power in Europe has had the same history. England, France, Germany, Russia, Austria, etc., are great, because in the course of their history they have managed to absorb into a single political unity a large number of previously quarrelling smaller fragments of races and countries. The supremacy of law over the jurisdiction of force never can come about otherwise. War is the product of independence. "There is not always in war anything necessarily and essentially barbarous. It is often the only final process by which independent powers can conclude angry differences about subjects to which they attach vital importance. It does not of necessity arise from wilful or conscious injustice on either side; when it does, it implies spirited resistance to injustice on the other side, which civilised men are the most apt to make. The Feudal Wars were in this respect quite

analogous to those of Modern States, which, by reason of their independence have often no means of legislating conclusively for Europe and other parts of the world except by arms, or 'armed opinions.'" (T. E. Cliffe-Leslie, writing in 1860.)

We are hoping, some of us, for the day when law not force will settle the disputes between men. That the hope is not chimerical is due to the profound truth that law is not the offspring of a natural justice in men—it is compulsory justice. "The existence of law in civilised society," said Cliffe-Leslie, only following Maine, "is based upon experience that the natural state of independent human beings is mistrust, violence, and warfare; that they covet the same objects, are not nor can be just to each other in their competition; and that they are prone to employ the tyranny of force to obtain submission to their partial wills."

I want to apply this great truth to the present state of Europe. In a long past, Europe has been steadily enlarging the areas of fellow-citizenship and patriotism, and has thereby been steadily enclosing international feud and the war of independent sovereigns and societies within legal barriers. To-day we see that powerful countries make powerful adversaries; let us recollect that each of them now closes in a common patriotism a thousand local enmities. In each of them nationality has so widened its borders that what once was patriotism and fidelity is now disloyalty and treason. Is this not truly the case even in little Ireland? Once there were 700 States in Europe: if to-day there be only 7, it follows that only the differences of 7 instead of 700 nations or governments can lead to war, and that all smaller feuds are brought under the cognisance of impartial tribunals. Thus, the supremacy of law has been established over wider and wider areas, ousting therein the jurisdiction of force.

Meanwhile the magnitude of wars grows in proportion to the dimensions of the aggrandised states. Civilisation in Europe has not led to the extinction of war: it has only led to their disappearance on a small scale, and their resumption on a vast one. The enormous scale of the present war is only one further stage in a cosmical process of development. Why shall the progress of human confederation and the extension of the rule of law cease so soon as it has compounded 7 or 8 States out of many hundreds? Are we not witnesses of an interdependence between the Allies that makes amicable relations between them a supreme condition of their continued existence?

Is not Austria as the result of this war from henceforward politically interdependent on Germany? Are not the 7 or 8 States of Europe already becoming confederated into two greater combinations? And now, in the throes of the greatest war of human history, are we not expecting on tiptoe the coming of the fateful moment when by a mutual settlement, there shall arise and hover over the thoughts and consciences of all of us a general idea claiming devoted homage from each of us: the idea of a nation called the Europeans, and of a common country called Europe. If indeed that be the thing we are now fighting for, then, speaking as an economist, I say God speed the fight! for the object to be achieved is worth the whole price.

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