

ECONOMICS, TRADE, AND FINANCE

WAR'S FINANCIAL PARADOX

BY HARTLEY WITHERS

A CORRESPONDENT desires elucidation of the following puzzle:

“It is said that the war has “cost” £8,000,000,000; in other words, that sum has been “expended” by Great Britain on the war. But looking round we see plenty of money knocking about. Wages are high and have been earned by hard work. This huge sum has been spent, but there are no signs that the country is poorer for it. There must, therefore, be plenty more where that came from.

‘More than that; most workingmen have never had such a good time. Their children have been better fed and clothed. Besides plenty of wages there are separation allowances and pensions. Millions have been made, too, by masters, contractors, and profiteers. A good slice of this has been taken, very properly, by the government as excess profit tax, but the huge sums subscribed by wealthy people for war loans show that they have put by an enormous amount. This stands to their credit, and although £8,000,000,000 has been spent, there must be plenty more in hand.’

Two distinct problems seem to be involved by these questions, one of which is quite simple and the other rather difficult. Number one is the fact that in spite of the huge expenditure on the war, there is more money than ever in the pockets and the bank balances of its citizens. Number two is the fact that again, in spite of the huge expenditure on the war, a great many people, probably the majority of the population, are actually better off.

There is no difficulty about seeing why there is much more money about, because money when it is spent does not thereby vanish, except when it is spent abroad and actually shipped in gold or notes. When the government spends money at home it first has to get it, by taxes or loans, and then pays it out to contractors, or soldiers and sailors, or their dependents, or to civil servants, or members of Parliament, or anyone whom it may be rewarding for work done, or alleged to be done, for the service of the country. These workers hand over the goods and services needed and take payment and the money is still in their pockets or at their bank ready to go round the same circuit, being paid in taxes or subscribed to loans and then again paid out against fresh goods and services supplied. In ordinary times the quantity of money of all kinds, including checks drawn on banks, that is being turned over in the country cannot be increased indefinitely unless more gold comes in because there is a rough relation between the amount of gold in the Bank of England and in the other banks and the amount of credit that the banks are prepared to create; and if the banks create credit too fast, the machinery of exchange sets up a process that corrects this excess. The creation of credit-money faster than of goods depreciates the buying power of the money, in other words, raises prices; imports of goods are stimulated, exports are checked, and a balance of imports has to be paid for in gold which reduces still further the proportion between gold and credits, and checks the creation of the latter. In war time this pretty and effective sys-

tem of checks and balances does not work. For a long time our gold reserves were protected by Tirpitz and his submarines, which made it too expensive a business to send gold abroad, owing to the high premiums that had to be paid against the submarine risk; moreover, there was and is still, in spite of the fighting being over, a notion that it is not patriotic at such a crisis to send gold abroad any more than it is right to demand gold from our banks to carry in our pockets. And so the relation between our stock of gold and the creation of credit no longer exists; and the restoration of this relation is one of the first things needful for getting our currency back on to a sound basis. In the meantime our war governments have been able to take advantage of a wholly abnormal state of affairs to finance a large part of the war expenditure, not by taking or getting our money through taxes and loans, but by printing paper currency and by making the banks create credits for them against government securities placed with them. Paper has been printed so rapidly that according to an estimate made by a committee lately appointed to inquire into the question of currency and foreign exchanges after the war, the amount of legal tender money in bank reserves and in circulation has risen from 180,000,000 on June 30, 1914, to 383,000,000 on July 10, 1918, since when the printing press has worked with accelerated vigor. The increase in bank credits has also been on an enormous scale; and it is very safe to expect that the total deposits entered in their books, which were 1,070,000,000 (not including those of the Bank of England) before the war, will be found to have totaled something like 2,000,000,000 on December 31 last. With an addition of over 200,000,000 to legal tender money (coin and notes)

and probably of about 1,000,000,000 to bankers' book-keeping money, it is not surprising in the first place that, in spite of the war's expenditure, 'we see plenty of money knocking about' and, in the second, that the said money, though comfortably plentiful, is lamentably deficient in the only quality for which money is valued, namely, in buying power.

Owing to this disagreeable fact the appearance of wealth that the circulation of so much money and the existence of such large bank deposits give, is largely if not wholly fictitious. The inquirer who puts the conundrum observes that 'this huge sum has been spent but there are no signs that the country is poorer for it.' But is that so? The wealth or poverty of a country is surely best tested by the ability of its citizens to get the goods and services that they need, or think they need; and we know that in spite of the flood of money many of the good things that we used to enjoy are often difficult and sometimes impossible to get in these times. So much labor had been diverted to war purposes that the remnant has not sufficed to provide us with many conveniences that used to be plentiful. Traveling facilities, hair-cutting and barbers, domestic servants, houses in certain places, some kinds of fruit, cigarettes and tobaccos, wines, spirits, and beer, are obvious examples of service givers and goods that are much less plentiful than they were. And if we look deeper into the problem and remember that we lost about 8,500,000 tons of shipping by submarine attack, and have sold, perhaps, 800,000,000 worth of securities to foreigners in exchange for munitions and food, and borrowed over 1,300,000,000 abroad, it is clear that the country is actually poorer, whatever the appearances may be.

If, then, the country is actually

poorer in its command of goods and services, how are we to explain the fact that most of the working classes and a large number of contractors and profiteers — a majority of the population all together — ‘have never had such a good time?’ The answer seems to be that the war has caused a great change in the distribution of wealth, or of buying power. The minority have spent less on themselves and their own enjoyment than they did, and this abstinence — voluntary or compulsory — has meant a transfer of buying power, through the hands of the government, to the working classes and to those who have earned, or got, war profits. The class of small rentiers, living on fixed money incomes derived from investments, has been terribly hit both by high prices and by high taxation. This is the class which has really suffered war privation, except in so far as members of their families have been able to earn something by war work. The very rich have had a large part of their normal expenditure cut off by the enlistment of their men servants, grooms, gardeners, gamekeepers, chauffeurs, etc., by petrol restrictions, by the commandeering of their motor cars, houses, yachts, horses, etc., and by the impossibility of foreign travel. High taxation has relieved them of a considerable part of the savings that this enforced abstinence has produced, and the rest of it has gone into War Loans to be spent by the government and so handed over to the classes who were doing war work, or to the soldiers and sailors and their dependents. If one man who used to spend £40,000 a year on the amusements and diversions customary to his position has been able to spend only £10,000 of it during the war, the distribution of the odd £30,000 through, perhaps, 200 families by war expenditure would make a very considerable difference to the gen-

eral standard of comfort. Whether retrenchment by the rich has been on this scale it is impossible to say, but at least it is clear that much of their expenditure has been forcibly cut down, and a good deal, no doubt, has been voluntarily cut down under the stimulus of patriotism, since people who have been accustomed to handling big incomes have usually more sense of responsibility in the spending of them than those who have lately and quickly acquired them. And it is satisfactory, from the point of view of the well-being of the country as a whole, to note that this widening of the distribution of buying power, and improvement of the workers’ standard, to some extent will be permanent. Some people argue that the rich, as a whole, have grown richer by the war, owing to their big subscriptions to War Loans. But if, as seems likely, the large proportion of the debt charge will be raised at their expense, by heavy direct taxation, their share of after-war taxation will be bigger than their share of the interest on the debt.

Land and Water

THE CAUSE OF STRIKES

THERE are few signs in the world at present of the coming of that ‘brotherhood of the classes’ which some prophets foretold as the result of the war for democracy. From almost every country comes news of labor unrest on a large scale, and from most countries, of serious strikes often developing into civil disturbances. It is, of course, easy to exaggerate the significance of such movements, whose precise importance the continued activity of the various censorships makes it very difficult to ascertain. But enough reliable information comes through to make it certain that revolution is at least a