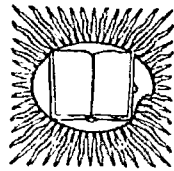


# WAR DEBTS AND FUTURE PEACE

BY  
JOSEPH E. DAVIES

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# War Debts and Future Peace

By JOSEPH E. DAVIES<sup>1</sup>

Formerly United States Commissioner of Corporations, and now a member of the Federal Trade Commission

**T**HE European War is being run on borrowed money. That is the startling fact, of which but little is thought. In the determination of the terms of peace, however, it may be of far-reaching and impelling force. There are many altruistic and humanitarian forces addressed to effecting permanent peace, but, powerful as these forces may be, they may not be as potent in peace councils as the forces of unrest that are being generated by the accumulation of war debts, the interest charges upon which future generations will have to pay, and which will be a heavy burden upon the incomes, and perhaps even an overwhelming encroachment upon the living wage, of the peoples of the various governments now engaged in war.

## BOND ISSUES FINANCE MODERN INDUSTRY AND MODERN WAR

THIS war is the greatest business project of all times. Formerly men financed their enterprises on the immediate capital which they could gather together. That is changed, and large modern industries are generally projected and financed to a large degree out of the funds derived from long-term bonds, which are expected to remain virtually a permanent charge upon the property. Formerly wars were financed out of current revenues. Napoleon, for instance, was able to make his wars virtually pay their way. Modern wars, however, are financed by modern methods, and the money is generally raised by loans, either direct or by paper-money issues, which are, in fact, loans forced from the people by the government that issues the money.

## WAR EXPENDITURE AND CURRENT INCOME

It is easy to spend borrowed money. Under such a financial arrangement neither the Government nor the people feel the immediate pinch of war costs. If these costs were paid out of the annual income of the warring nations, the true cost would be more nearly appreciated. The direct cost of the war to all the belligerent countries is about 110 million dollars a day, as contrasted with a daily income of approximately 130 million dollars a day. The cost is more significant when compared with the daily savings out of income. The aggregate savings of all the peoples of the warring nations have been estimated at twenty-one million dollars a day. In other words, the daily direct war cost is a sum nearly five times as great as the daily savings of these nations in peace and in times of greatest prosperity. If costs were to be paid out of income, every day of the war would take the total savings of every man, woman, and child of the warring countries, and requisition in addition thereto the accumulated savings of four other days. If the direct war costs were paid out of income there would not be enough left to provide for even the physical minimum of subsistence.

The expedient of using borrowed money disguises the facts, places the burden to a large degree upon the future, relieves immediate pressure, and makes possible still greater expenditures.

## INTEREST ON WAR DEBTS, TAXATION, AND PEACE

SOME day, however, these debts have to be retired. The interest charges at least

<sup>1</sup> This article is the personal expression of the writer, and does not in any manner purport to be the opinion of the Federal Trade Commission.

must be paid every year. Borrowing may go on and on, and the pressure be not much felt. When the interest charges themselves become burdensome, however, then it is that statesmen and those conducting wars begin to feel the limitation of their power. For it is generally through taxation that the money must be raised to pay the interest charges, and there is a limit to the taxation which any representative government may impose upon its subjects with safety. This is especially true in democracies, though it is also true where governments are more autocratic. The menace of military power, the shadow of the man on horseback, may hold back the social pressure arising out of the economic unrest of burdened subjects, but even under such conditions there is a limit to the extent to which the burden of taxation may go. It is essential to the preservation of government itself that in the long run taxation must be confined within reasonable limitations. It is a consideration to which the statesmen of the warring nations are giving much attention.

The per capita indebtedness of the Federal Government of the United States is ten dollars and fifty-nine cents (\$10.59). The per capita indebtedness of the warring nations at the present time will vary from six to forty times that amount.

#### ENGLAND'S DEBT AND HER POLICY OF PEACE

THE Napoleonic wars lasted twenty years and added 500 million pounds to England's debt. In 1816 the interest charge on the war debt of England alone absorbed more than one half of the whole public revenues from taxation. It was doubtless this fact that gave to English statesmen pause, and then caused them to give very grave consideration to the question of the degree to which a government could withstand the strain resulting from the taxation that the payments of interest on war debts necessitated. It was probably these conditions that caused Robert Hamilton of the University of Aberdeen to write his famous "Essay on the National Debt." There is no doubt that the

necessity for retrenchment in public expenditures was reflected in the manifest policy which England adopted, with a result of thirty-nine years of peace.

#### WAR DEBTS CHARACTERIZED BY RAPID GROWTH AND BY SLOW RETIREMENT

WAR debts grow with tremendous leaps in very short periods of time; but it is equally true that they have been retired most slowly. Following the Revolution of 1688, for a period of 128 years England alternated between periods of peace and war. During the sixty-four years of war approximately 825 million pounds were added to the national debt, and during the sixty-four years of peace the debt was reduced by only thirty million pounds. The Crimean War, lasting twenty-seven months and seven days, added thirty-three million pounds to the public debt of England. Thirty-three months of the Boer War wiped out the savings of thirty-six years that had been applied to the reduction of the national debt. England's most brilliant statesmanship has always been addressed to the British Exchequer and to the retirement and reduction of the national debt, and yet the most remarkable achievement of her fiscal statecraft did not succeed in retiring a sum greater than eleven million pounds in any one year. Less than two days' expenditures of the present war wipes out that entire amount. All of the savings of the imperial government of the richest country in the world, from the Revolution of 1688 down to 1914, a period of 226 years, would be sufficient to finance only eighty days of the present war. The taxpayer of Great Britain to-day is still paying taxes to cover the interest on the debt incurred by his forefathers in the American Revolution, the wars of the Napoleonic era, and Queen Anne's War.

If the experience of England in the last 200 years in the retirement of national debt is to be taken as a criterion, it will probably be safe to conclude that a thousand years in the future the English people will be paying taxes to meet the interest on the debts now incurred.

Consideration of these facts makes clearer the economic significance of the present unprecedented war expenditures, with the enormous national debts which are now being piled up.

#### BURDEN OF DEBT IF PEACE WERE NOW DECLARED

OF the total war cost of the first two years, three fourths, or approximately forty billion dollars, were raised by loans of the warring nations. Upon the same basis it may be conservatively estimated that the combined loans of all the warring nations at the end of this, the third year of the war, will be at least ninety billion dollars. To get the aggregate indebtedness of all the nations there would have to be added the indebtedness of twenty-four billion dollars that existed at the beginning of the war. It was one of the axioms laid down by Hamilton that to the cost of the war up to the treaty of peace there would have to be added an additional year of expenditure to cover the total cost of the war. If the present war, in Europe, then, were to end within the next six months, the total war debts of the warring nations would probably approach the enormous sum of 130 billion dollars.

This is a sum greater than the total national wealth of either England or Germany; it is in excess of the national wealth of France and Italy combined. The interest charge on this sum alone would exceed the total expenditures of all the warring nations for all governmental purposes, civil and military, during the last year of peace (six billion four hundred million dollars). If to the annual interest charge which this indebtedness entails there were to be added a sum equal to the current expenses of the governments for the last year of peace, it would represent a sum to be raised by taxation which would probably exceed one fourth of the total gross annual money income of all the nations engaged in the war. However, if, in addition to this, it were necessary to resume the same degree of military expenditure as existed prior to the war, the

interest on the war debt and other governmental charges would, in time of peace, take twenty-five cents out of every dollar from the income of every man, woman, and child in the warring nations. If to this annual sum that had to be raised by taxation there were to be added sums in addition for the preservation of the present armaments or naval equipment which would be in proportion to the present war footing, the burden on the taxpayers of the nations at war would be increased to an incredible amount. Even if the armaments of all the nations at war were to be abolished by the terms of peace, the additional cost to the governments arising through pensions and expenditures for social amelioration would be equal annually to, or in excess of, the sum formerly spent for armaments in the years of peace preceding the war.

The resumption of peace on the basis of present war debts, whether on a basis of continued armaments or not, will entail an enormous burden upon the warring peoples to meet current charges and interest.

#### ENGLAND'S EXTRAORDINARY WAR TAXES

OF all the nations engaged in the war England alone, apparently, is trying to make the war "pay its way." Germany and the other Central Powers seek to pay the cost of the war out of imperial treasury loans and a moderate issue of paper money. The total indebtedness of Germany at the end of the second year of the war, including her peace debt, was a sum greater than her total war cost for those two years. The issue of German government bank currency, not redeemable in gold, has trebled since the war began. France in a somewhat lesser degree is following the same policy. The paper currency in France has also greatly increased, as has also her bonded indebtedness. England's issue of paper currency, on the other hand, is negligible. All of her paper currency is redeemable in gold.

England's revenue derived from taxable sources for the year ending March, 1914, was 163 million pounds; for the

year ending March, 1915, 189 million pounds; and for the year ending March 1, 1917, will be 330 million pounds. Through the most remarkable system of war measures the revenues from taxation have been raised 167 million pounds over the amount raised in the last year of peace. Of this 167 million pounds, however, thirty million is estimated to be a munition profit tax that will stop with the war, leaving a net increase of income from taxes of 137 million pounds a year.

To secure this enormous increase in revenues from taxation in two years has required most extraordinary war measures. The minimum income tax prior to the war was two fifths of one per cent. That has been raised to one per cent. The maximum income-tax prior to the war was thirteen per cent. That has been raised to forty-one and one half per cent. Nor is the significance of this alone measured by the increases in the tax rate. Of equal or greater significance is the reduction of the exemption from 800 dollars per person to 650 dollars. This has increased in a very marked degree the number of people who are paying income taxes, as well as the amount every taxpayer pays. In addition thereto, of all the increases in the profits of all businesses in Great Britain during the war, sixty per cent. has been taken directly by the state. Taxes have been imposed upon amusements, railroad tickets, matches, mineral waters, and have been reimposed upon war profits, motor-cars, incomes, sugar, cocoa, and many similar commodities. Thus it would appear that England, the wealthiest of all the nations at war, in the white heat of patriotism and in the midst of the greatest of war enthusiasm, is to-day able to raise by taxation, despite her remarkable efforts, only one sixth of the current war expenditures.

#### ENGLAND'S REVENUE AND EXPENDITURES

ENGLAND'S daily expenditures are five and three fourths million pounds a day, or approximately 2180 million pounds a year. According to a recent statement made by the Chancellor of the Exchequer, the rev-

enue from all sources, including that from taxation, for this year was estimated to be 502 million pounds, which would leave a deficit of 1678 millions to be covered by loans. From the total cost of the year there should be deducted the amount used for civil purposes, which would probably reduce the war expenditure to approximately 1800 millions; and it therefore appears that of the 1800 millions used for war purposes approximately only one sixth is paid by revenues raised from taxation.

At the present rate England is amassing a debt at the rate of at least 1600 million pounds a year. Thus in one year England accumulates nearly three times the debt that she had accumulated in the previous 227 years. At the end of the present fiscal year her total indebtedness for this war will be 3500 millions, a sum that is five times the debt at the beginning of the war.

Each succeeding year of the war will probably show an increase in cost of at least one third over the year preceding. Another year of war would make England's debt approximately 5500 million pounds, and if peace were to come then, we should still be obliged to apply another year's expenditures, under the Hamilton rule, and the total indebtedness would approximate 7000 million pounds. The significance of this sum translated into dollars—35,000,000,000—is seen when one realizes that the total assessed value of all real and personal property for purposes of taxation in the entire United States amounted, according to the last census, to 69,452,936,000, or only about twice the sum of this gigantic war debt. The total levies of all property taxes for state or local purposes in the United States amounted, according to the last census, to only 1,349,841,000 dollars, a sum sufficient to pay about four per cent. on the probable debt of Great Britain at the end of another year of warfare.

#### ENORMOUS BURDEN OF TAXATION

THE interest upon such a debt at six per cent. would be a sum almost twice the

total of all the revenues of Great Britain from all sources in the last year of peace, and the interest on this war debt alone would exceed the enormous sum that is now raised by taxation under these unusual war conditions. The entire revenues from taxation would be needed to pay the interest on the public debt alone. If the army and navy were to be sustained on no more extensive a scale than in the last year of peace, the sum needed to run the Government and pay current interest charges would be greater than the total amounts now obtained by taxation under the stress of war conditions.

The expenditures on the navy during the last year of peace were forty-nine million pounds, and on the army twenty-eight million pounds. The expenditures last year, currently reported, were four times as great for the navy, in the sum of 190 million pounds, and over twenty-five times as great for the army, in the sum of 715 million pounds. If, with the restoration of peace, the army cost were to be reduced to one fifth of its present amount, the annual cost would be over 140 million pounds; and if the navy expenditure were to be reduced one half, the annual cost would be 95 million pounds, a total of 235 million pounds. This is a sum forty-two million pounds in excess of the total requirements of the Government for all purposes during the year 1914. If such a sum were to be required in addition to current civil and standing expenditures and current interest charges, the total revenues required for each year of peace would be almost double the present amount of revenue that is raised by taxation.

#### BRITISH SOLVENCY UNQUESTIONED

THE purpose of this estimate is not in any way to reflect upon the solvency of Great Britain. This computation does not include the wealth or resources of her empire. It is addressed only to the British Isles, and to indicate what the burden of taxation may be. Astonishing as is the present indebtedness, it is not such as to be necessarily alarming to creditors. It is really not so great, when the ratio of in-

debtedness to national wealth is considered, as previous debts which Great Britain has successfully sustained. The per capita debt after twenty-three years of the Napoleonic wars was 226 dollars, while the per capita wealth was 672 dollars. The present estimated per capita wealth of Great Britain is approximately 1900 dollars, and the indebtedness of Great Britain could still be more than doubled over its present condition before the same ratio would obtain as between per capita debt and per capita wealth that obtained at the end of the Napoleonic wars. England worked out her fiscal salvation from that situation, and probably will again. The resilience of England's finance has been remarkable. Outside of the Bank of England, the English banks in the first two years of war increased their deposits 250 million pounds, their cash 72 million pounds, and their investments 165 million pounds. England now nominally redeems all of her currency in gold.

The purpose of citing England in this connection is only to illustrate the situation as to taxation and war indebtedness.

#### ENORMOUS FUTURE BURDENS OF TAXATION FOR ALL WARRING NATIONS

IF conditions such as these obtain in the wealthiest nation, then the conditions described would obtain with still greater force in the other warring countries. Indeed, the conditions in those nations which are making no effort to meet war expenditures out of current revenues may perhaps be still more disturbing than in a country where such tremendous effort is being displayed to pay at least a part of the war burden by means of taxation.

Every year of the war which is financed on borrowed money will increase the debt of the nations at war and of many neutral nations as well. With each succeeding year of the war not only will the interest rates increase, but the discounts on government paper will be greater, and at the same time the purchasing power of money will be reduced.

With each succeeding year of these conditions the gross annual sum which will

have to be paid for interest as fixed carrying charges in time of peace will increase.

With the resumption of peace, then, there will remain this tremendous burden of national debt. Unless repudiation comes, the interest will have to be met every year. The other expenses of government will go on increasing as in the past, and all these expenses must be paid by taxation, direct or indirect, or from other sources of government income. If to these obligations which must be met to preserve credit there must be added the great expense of sustaining armies and navies, the burdens upon governments will be appalling, and greater than any governments in the world have heretofore been required to sustain.

#### ECONOMIC PRESSURE AND PEACE PROPOSALS

It is not strange, therefore, that from the chancelleries of Europe on both sides of the conflict there comes the constant reiteration of the suggestion that the coming peace must be a peace of a permanent character, which will make future wars impossible. It is possible that upon the resumption of peace the burden of debt

alone will be sufficient to tax the capacity of governments to meet their obligations without the imposition of any additional taxation to sustain or create armaments either to protect a present peace or to prepare for a future contest. And so it may come that the economic pressure rising out of these conditions may be one of the most impelling considerations in the determination of what shall constitute the terms of peace. Armaments, of course, will have to be sustained unless the terms of peace are predicated upon such conditions as will not sow the seeds for a still more horrible war in the future.

The altruistic and humanitarian impulses of humanity to prevent, if possible, the recurrence of so horrible and awful an experience as this war will have their weight, but it is characteristic that considerations of this kind soon fade away into a memory. The economic considerations involved in the question of national debts and the payments of interest thereon may be a more compelling force in the promotion of permanent peace. For these economic factors will continue, and their influence will be felt for hundreds of years to come.