

MONEY AND WAR PRICES

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"WE have assisted materially in fighting a long and severe war, and we imagined that this involved us in considerable sacrifices both in life and property. As to the heavy sacrifices in life there is no room for question, but as to the sacrifices in property and prosperity, there is apparently some doubt. Many statistics are cited to show that instead of emerging from the war much poorer than we entered it, we are in reality some hundreds of millions richer than before. Never before in such a brief period have we apparently accumulated so much wealth, have our industries been so fully employed, and reaped such large profits. Our laborers have been better employed and at higher wages than ever before. Our farmers found their produce in more urgent demand and at hitherto undreamt of prices. Our trade returns, especially in exports, have advanced by leaps and bounds, and our banking figures show unprecedented increases in deposits, especially in time deposits, which are always regarded as representing the general savings of the people. The national debt has greatly increased, it is true, but, owing to the astonishing increase in the wealth of the people during war, it has been chiefly taken up in Canada and the interest will remain in the country.

"In the face of this popular presentation of our economic situation, if war could only be waged without the loss of life, a few more years of world conflict would apparently have placed us in a condition of transcendent prosperity.

"Strange to say, however, this statistical demonstration of wealth, which should promote a spirit of unbounded optimism, is accompanied by a growing wave of discontent and unrest. Notwithstanding the high prices of food, the farmer complains of the high cost of production and the great dearth of labor. The unprecedented wages obtained by labor leave him as short-tempered as ever on account of the cost of living, and he demands ever increasing wages. What then does all this mean? The answer can be found only by taking a rapid survey of the economic course which we have run during the war.

"When the war broke out one of the first actions of the government was to suspend specie payment, not only for the banks but for itself. This was a very regrettable but a quite indispensable sacrifice to make, in the face of the abnormal financial conditions precipitated by the outbreak of the war. It prevented a possible financial panic in Canada, and the shrinkage of assistance by the banks to the commerce of the country. It also prevented a run upon the government treasury for gold in the redemption of Dominion notes. But what permitted the banks and government to continue their existing credit advances, permitted them also to extend these indefinitely, under pressure of subsequent financial needs. The safety valve once closed off, you can get more work out of a good boiler, but it requires expert engineering to manage it, and Canada was fortunate in having expert management of her banking and finance.

Methods of Meeting Cost

"Apart from foreign loans there were three methods of financing the war open to the government: First, to obtain by taxation the necessary funds as required. This, of course, puts a very heavy strain on the country all at once. It prevents, however, domestic inflation of values, because the more the government takes, the less the people have to spend, a strict economy is enforced and values remain substantially at a balance. The demand for export goods would still be subject to conditions abroad, certain prices would rise whilst others declined. In a direct manner this method could be only partially applied in Canada because it had not suffi-

ciently large quantities of surplus wealth or fluid capital. In connection, however, with the third method to be considered it contributed much more than commonly suspected. The second method is that of domestic borrowing. So far as levied upon a voluntary basis, this may not furnish adequate funds, but if the necessary pressure were used, as in Germany, it might be quite successful. The general effect upon prices would be much the same as in the case of taxation, because the spending power would be transferred from individuals to the government, and, therefore, not increased. The liquidation of the debt, however, would be transferred to the future and large charges for interest would have to be met in the meantime. This method was found to be more attractive than that of taxation, and was quite extensively employed when assisted by the third method.

"The third and last method is that of utilizing the credit system of the country in purchasing supplies and meeting the expanding outlays by drawing upon the credits of both the governments and the banks. The suspension of specie payment rendered this method practicable, because the credit obligations once launched could not return upon either the government or the banks, but must simply dilute the normal credit of the country, and when passed into the hands of the public, could be drawn upon again in the shape of loans, and thus facilitate a second movement. This process has the financial merit in times of drastic emergency of not only facilitating borrowing by the government, but of drawing upon the incomes of the citizens in a very effective though indirect manner. The process is analogous to the watering of milk. The milk supply being inadequate in its pure state, some citizens contribute water, and others milk, and these are mixed before being re-divided, the supply will then go around, and those who contribute the water will get their due share of milk. This is reflected in the fact that whereas in the beginning of the war an income of \$1,000 would purchase a certain amount of real supplies, but at a subsequent stage of the war, when the credit system had been in operation for some time it would purchase just one half that amount of supply, the other half having gone to the government and through it to those who chiefly profited from government expenditure. In other words one-half the pre-war income became water, the other half remaining milk.

"We thus see that apart from borrowings abroad which merely postponed the process, in time each method or such combination of them results in the people as a whole having to contribute in one form or another the actual wealth required to carry on the war. As to how this is adjusted as between the individuals of the nation, is a longer and more detailed question. As a matter of fact, the government used not one of these methods but all three of them, direct taxation least of all, borrowing most of all, and the third to an intermediate degree, but as we have seen, with subtle supplementary relations to the other two. It is this process that requires some clearing up, as it affords the key to the explanation of the anomalous problem with which we started, that of statistical prosperity with much complaint as to difficulty in meeting the cost of living.

"The process of inflation of values through the expansion of credit has been shared in more or less by every belligerent and most of the neutral nations. It was brought to its highest pitch among our enemies, whose milk became almost entirely water, bringing about their collapse, although exhibiting statistically unbounded prosperity. The operation of the credit system presents much mystery to the ordinary man, who vainly imagines that the whole system might be escaped through a reconstruction of society. Yet every effort at such a revolution has been accompanied by an unbounded and unregulated recourse to exactly this expedient in its crudest forms, as in the French revolution and as now in Russia.

"The nature of the process, the great national sacrifices which it involves, and the apparent obscuring of the actual situation are revealed in a survey of the economic aspect of the war. When the troops began to be called out and sent away, the government obtained funds for the process, partly

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