

economists and publicists aghast and impels them to cry out that Europe is going down in irretrievable financial and economic ruin, if the war is not brought to a speedy end. They endeavor to estimate the annual interest alone that must be paid upon the inconceivable sum-total and they get some such result as this: Interest on ante-bellum debts (allowance being made for self-supporting state properties), 3 per cent. on \$28,000,000,000, or \$840,000,000; war debts already incurred during the first year of the war, 5 per cent. on \$17,000,000,000, or \$850,000,000; war debts to be incurred during the ensuing year of war, 6 per cent. on \$24,000,000,000, or \$1,440,000,000,—a totality of interest alone of \$3,130,000,000; and they recall that the aggregate annual national savings of no two of the major belligerents together (omitting increases of land values, which in this case do not count) have ever, so far as we know, reached this gigantic amount. They reflect, too, that the great bulk of this mountain of interest must be met by only five nations in Europe,—Great Britain, France, Russia, Germany, Austria-Hungary; and they ask what possibility there is that these countries, already severely taxed before the war, can sustain this quadrupled and quintupled burden.

Nations Will Sustain the Burden.

"None the less, it is our own contention that the European nations can and will sustain the burden, that they are (with possibly one or two minor exceptions) in no danger whatever of becoming bankrupt, and that general repudiation of their indebtedness is the last thing that need be feared. We believe, further, that the very magnitude of this suddenly piled-up national indebtedness will give rise, as soon as the war itself is disposed of, to an unparalleled forward leap of industry and commerce, not only in the countries which have been engaged in the war, but all over the world.

"For instance, the quarter century following the war will, we are confident, be marked by a vast and swift economic development of the hitherto scarcely touched waste places of the earth, with all the reaction of this upon the great industrial and commercial nations, such as could not possibly have been brought about by an unburdened and comfortable world in less than a century of slow saving and creeping advance. We are fully aware that at first sight and for persons unaccustomed to carry through to the distant end the analysis of such utterly unreal and bewildering phenomena as we have here to deal with, this statement must appear not merely startling but wholly incredible and contrary to reason.

What Is a National Debt?

"The first step is to analyze a little more closely than is customarily done, even by professed economists, exactly what a national war debt is, what is the manner of its genesis, and what it really represents after it has been incurred. It is usual, of course, to look upon it as any other debt is looked upon, *i.e.*, capital borrowed at some rate of interest, and which ultimately must be repaid, principal and interest. In fact, it is common to think of it as something far less defensible, from an economic point of view, than an ordinary commercial debt, inasmuch as the very purpose of the borrowing is waste of that which is procured by the borrowed means. Hence the common saying that a war debt signifies just so much capital destroyed and the world the poorer by so much.

"That this is fallacious reasoning, however, is shown by the obvious fact that all but an exceedingly small part of what a nation's armies use up in the course of a year would have been used up in any case and would have left

no trace behind. The population at peace would have consumed the food, the clothing, the boots and shoes, the transportation, even a large part of the ammunition (in other forms, of course), and a multitude of other things, which the government of the belligerent nation purchases and supplies to its soldiers. And the using up or consuming of these articles cannot be a waste of capital, in the sense commonly thought of in this connection; else, every act of consumption would have to be looked upon as a waste of capital. That there is some waste of capital in the conduct of war nobody would be foolish enough to deny; but to make this waste of capital commensurate with the borrowings and the expenditures of the government for war purposes is not a whit less foolish.

Analysis of War Debt.

"For the most part, national war debts do not imply drafts upon the existing capital of the belligerent nations, but are in their essence the capitalization in permanent form of the market value of all the materials and services employed in the conduct of war. A simple illustration will make this clear. A is a hatter, producing hats and consuming shoes; B is a shoemaker, producing shoes and consuming hats. In time of peace, when industry and trade are pursuing their normal courses, A consumes \$5.00 of B's shoes and B consumes \$5.00 of A's hats. Through the ordinary channels of trade A gets B's shoes and B gets A's hats,—there being, of course, as our complex system of trade requires, intermediaries in the transactions, the payment of moneys, the use of banks, etc. But, in the end, it all comes down to this, that A has obtained \$5.00 worth of B's shoes and worn them out, while B has obtained \$5.00 of A's hats and also worn them out. All the intermediary services and money or credit transactions have off-set each other, and there is nothing whatever left, except perhaps various entries in books now no longer of value. . . .

"A national war debt, then, is in the main a capitalization, in the form of obligations of the country at war, of the value of commodities and services which would otherwise have been interchanged, consumed and set off one against another, leaving no residue. The only qualification needed here is that such portion of these commodities and services as would in time of peace not have been consumed, but would have been saved, represents a real waste of the actual or potential capital of the country. But this portion is of comparatively small amount or account, economically speaking.

Will Become Available for Industry.

"In closing, we may speak briefly of the manner in which the vast potential capital of the European war debts will become available for the enlargement of industry and commerce the world over. It is clear that whatever is paid in the way of interest and amortization from year to year will represent a concurrent proportionate transformation of the potential capital into existent capital. This, however, will be a long process. The mass of the war debts, however, will become at once available for use for credit purposes through the credit machinery of the world's banks. And only one limitation will be imposed upon the volume of this use, namely, the now agreed stock of gold, which the civilized nations have massed to stand in a fairly fixed proportion to the important for the future will be the eager mobilization of gold which is going on in virtually every important industrial and commercial country in the world, whether directly engaged in the war or not."