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THE ROUND TABLE

THE BRITISH EMPIRE'S FINANCIAL TASK

A Quarterly Review of the Politics of the British Empire—Republished Under the Above Heading

II. THE ECONOMIC POSITION (a) The National Income and Expenditure of the United States

It is simpler for a clear understanding of the burden which the war entails on Great Britain, and of the manner in which alone it can be met, to ignore for the time being the financial elements of the problem, and to fix our minds rather on things: on the actual processes of production and consumption lying beneath all that intricate financial machinery which is apt to obscure realities.

Neither in peace nor in war does a nation live on "money." Its gold and silver coins have, it is true, an intrinsic value of their own, but neither they nor its bank notes, nor its currency notes, nor its bank deposits are its real wealth. Its real wealth is something quite different. It consists of all those existing things which the efforts and sacrifices of past generations, and of this generation too, have produced, and are from day to day producing. It is from this mass of wealth, which either has been produced in the past or is day by day being produced—i.e., from its capital and income—that a nation's needs, whether in peace or war, can alone be met. There is only one other source, and that a temporary and unstable one—namely, borrowing from other nations, or in other words the sale by foreign nations of their goods for the time being on credit. No inflation of credit, no increase of currency, no financial manipulation will of itself produce a single additional grain of wheat or a single additional cartridge.

It is worth while to return again to the examination—already made in the June number of The Round Table—of the exact nature of a nation's capital and income, since important consequences, which are not generally understood bearing on the conduct of every man and woman in war time, flow therefrom.

A nation's capital may be defined as the whole mass of its accumulated wealth consisting of:

- (a) Fixed assets such as land, mines, buildings, machinery, railways, roads, canals, etc.
- (b) Live stock, stocks of raw materials, and manufactured articles of every kind.
- (c) Gold and silver coins, and bullion.
- (d) Debts owing by foreign nations, and property owned in foreign countries—e.g., through bond or shareholdings in foreign companies.
- (e) The intangible but all-important capital represented by the inherited and acquired skill, energy, organization, discipline, and productive capacity of the people.

A nation's income, which is larger or smaller according to the amount and quality of its capital, consists roughly of:

- (a) Its current output or production of wealth in the form of usable or suitable articles of any kind, or service exchangeable therefor.
- (b) Its earnings from other nations for services rendered—e.g., debts due to Great Britain for freight, for banking commissions, etc.
- (c) Its revenue derived from foreign investments.

It should be noted that in reality the income under (b) and (c) does not come to it in the form of money. In reality it enables the creditor nation to obtain goods from foreign countries to the extent of those earnings and that revenue without having to export goods to pay for them. From the national point of view therefore they represent so much wealth in the form of goods which the nation can consume.

It is interesting to compare the figures usually given by statisticians for the value of our capital and income as compared with Germany's, and for the respective expenditure of the two nations, a comparison which gives some remarkable results. Statistical figures of this nature can only be very approximately true, and other difficulties arise, in comparing results as between nations, whose standards of life and ways

of living are very different. Nevertheless they form an adequate ground for broad comparisons. Dr. Helfferich, the present German Finance Minister, placed Germany's capital wealth in 1913 at something under £16,000,000,000. He estimated the United Kingdom's capital at only £12,000,000,000. But British statisticians make a considerably higher valuation, and usually give for the United Kingdom the same figure as he gives for Germany—namely, £16,000,000,000. Since, then, the populations are respectively 69,000,000 and 47,000,000 our capital wealth per head is considerably greater, a result due no doubt in the main to our much greater holdings of foreign and Colonial securities which are usually said to equal about £4,000,000,000, though it is probable that they have of recent years largely decreased in value. The comparative figures for income yield still more striking results. For Germany we will take Dr. Helfferich's figures, for the United Kingdom the figures of the Census of Production of 1907, though since that date our wealth must undoubtedly have increased.

	England.	Germany.
Goods, and Services produced and received about.	£2,150,000,000	£1,960,000,000
Goods and services consumed.	1,800,000,000	1,560,000,000
Surplus wealth.	350,000,000	400,000,000

These figures show that 47,000,000 British have an income of £2,150,000,000, or just over £46 per head, whereas 69,000,000 Germans have an income of £1,960,000,000, or under £29 per head. They further show that, while our expenditure per head is over £38, Germany's is £23. According to this calculation each man, woman, and child in the United Kingdom spends £15 a year per head more than each German man, woman, and child, and if, therefore, we were to cut down our expenditure to theirs, we should save £720,000,000 per annum. The German economy in expenditure is especially striking owing to the fact that the cost of living is generally considered to be higher in Germany than in England. It is not, however, intended to argue that the comparison is actually a fair one, or that so huge a saving is reasonably to be expected from us. Indeed, owing to the different standards of the two nations no accurate mathematical comparison is possible. If we were to cut down our expenditure so drastically, we might cut down much of our income with it. The figures quoted are, however, sufficient to show that there is a great deal of room for economy in our way of living. They are especially remarkable if one remembers that the German standard must by now have been cut down again for below £23 per head, probably, indeed, at least one-third lower, while ours has hardly been reduced at all, if, indeed, it has not increased.

It is vital to grasp how all-important is a nation's annual production of wealth. Whether in peace or war what it lives on is what it produces from day to day. The figures quoted above show that the wealth—i.e., the materials, goods and services—produced each year in this country are not much less than one-sixth of the total capital wealth of the country, resulting from the efforts of all past generations. It is true that the great bulk of this annual production is immediately consumed, only something under one-fifth being added to the capital stock. Yet nothing could show more clearly that a nation's true wealth lies in the harmonious employment of the energy, skill, productive capacity, and thrift of its citizens. A nation's production of wealth is not something fixed. It is capable of being indefinitely expanded by the application of increased capital—i.e., by the savings of the nation transformed into additional or improved plant, into labour-saving devices, into increased motive horsepower per man, and, on the other hand, by the greater efficiency of labour, superior management, and the greater co-ordination of the efforts of labour and capital. But, if owing to extravagance and failure to save the necessary capital,

owing to inefficiency of labour, restriction of output, or bad organization, owing to continued friction between capital and labour, a nation's income falls far below what it might be, then all classes will suffer and the nation as a whole fall behind its competitors.

In normal times, as will have been seen, nations like England and Germany have an income a good deal larger than their expenditure. They add yearly quite a large amount to their capital wealth. The more they save, the more easily do they increase each year their surplus wealth. And this surplus wealth is then applied in the direction of improving the national plant as defined above, adding to and bettering the machinery of production and transport, or else in lending capital to foreign countries. Nevertheless, this annual surplus income, out of which improved conditions of living are built up, is never so large as it might be. Certainly in England it might be far larger. Its size depends (1) on the productive energy of the nation and on every man helping to produce as much as possible, (2) on the nation consuming only that portion of the product which is necessary for its true needs, and on every citizen wasting on useless purposes as little as possible. It has already been pointed out how serious from the point of view of production is the policy of restriction of output, fatal, indeed, both morally and economically. The maldistribution of the national income, which imbues the working classes with a sense of injury and injustice and leads to so much dangerous friction between capital and labour, in turn checks production and so injures the whole nation. With a proper distribution of wealth the

learned more of the true are of economical living.

(b) The Effect of War on the National Income and Expenditure

THE effect of modern war on a nation's income is profound. It changes the amount, and still more the character, both of the production and the consumption. It is not possible to calculate accurately the extent of the change. The unknown factors are too many. But it is possible to show generally the influences at work, and to form some measure of their effects.

The national income and expenditure of the United Kingdom were estimated above at about £2,150,000,000, and £1,800,000,000 respectively. The income has been affected in the first place by the withdrawal, most of them

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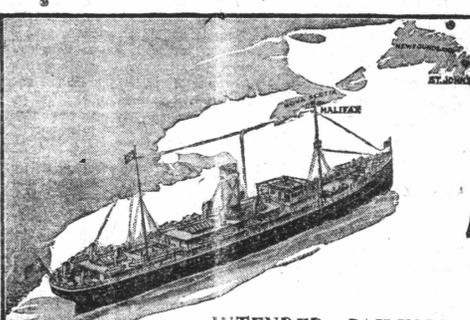
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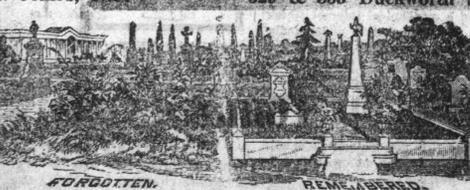
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