

Realities in the Financing of War

Strain of a Life and Death Struggle Brings Out The Essential Economic Bearing of War Finance on a Nation—Not a Question of Supply of Money as Much as a Question of Production.

Mr. A. J. Glazebrook, writing in the April issue "Journal of the Canadian Bankers' Association" on the "Realities of War Finance," points out that not all the elements in financing war can be expressed in terms of money emphasizing production as its most important phase. The article is thoughtful and well considered. It follows:

"There is apt to be a disposition on the part of people who are concerned in financial matters to think of the finance of the war too much in terms of money. The practical necessity of expressing the operations of financing the war in terms of money has a tendency to conceal from us its realities. In the case of a war of what one might call moderate dimensions, when the economic strain on the nations concerned does not become what one may call desperate, a purely monetary analysis of the economics of the war seems more or less adequate. The real relation of money to business only becomes obvious to everybody when the strain is so great on the machinery that those in charge of it remove, as it were, the casing of the machine, and watch anxiously the movements of the inner works.

"There are three principal points of view from which the problem can be studied: Firstly, from the point of view of the whole world; secondly, from the point of view of each nation; and thirdly, from the point of view of the individual. Looking at it from the point of view of the whole world the problem of financing the war resolves itself into the question of whether the world is able to support in arms some 30 or 35 millions of its best men over a period of years and supply them and themselves and all the population with necessary food, clothes and other requirements. From this standpoint it may be said that the cost of carrying on the war must be, and is, all paid for at the time. Of course, there are costs arising from destruction of property and depreciation of plant which must remain to be dealt with after the war. But the proportion of this to the total cost is almost insignificant. Then over and above this the heaviest cost of all to the world is the loss of the most valuable lives. But these are not really questions of financing the war. That resolves itself into a question of production.

"From the point of view of the nation the problem is almost identical, except this, that one nation can, and does, borrow large sums from other nations, and thus, so far as itself is concerned, may postpone a smaller or larger proportion of the expense of the war until a later time. In the first stage of the war the position resembles that suggested in the carrying on of a war of moderate proportions. It appears to be simply a problem of providing sufficient money, and money movements on a large scale embarrass and disarrange the financial relations between the different countries in the world. For example, Great Britain began the war with a heavy indebtedness to herself on the part of the United States and other countries, and proceeded to draw on these funds on a great scale. It did not seem then to be so immediately a question of production. Great Britain contained within herself large stores of goods available for immediate military requirements. The second

stage in the war had a certain similarity to the first, in that the movements superficially appeared to be of money, this time sent out from Great Britain to the United States and other countries for the purchase of munitions and the like, in gold and in securities. We are now well on in the third and most vital stage of the business, and it has come down to a hard, relentless problem of production. Nearly all the advanced nations of the world are engaged in the war, and all of them have had it brought home to them that there is desperate need of exercising every possible energy in order to produce enough to keep themselves and their friends in what is actually needed to carry on the war and to provide themselves with the necessities of life. The first thing that appears in these proceedings is the value of a reserve of money. The last factor that emerges is that the real final reserve consists in the unused power of work possessed by the human race. An interesting example of these necessities is suggested by the action of the Canadian Government in tearing up many miles of railway track that were not absolutely essential, and shipping them over to France for the purposes of war. What this meant was not that this was the cheapest way of obtaining the rails, but that there was not actually enough spare human energy to produce them, and that therefore, they must take away material from the ordinary purposes of life and transfer it bodily to the requirements of the war.

"All this does not mean that money does not play a part, and a very vital part, in the financing of war. It is not many weeks since in this country we raised a loan from our people to the Government of some four hundred million dollars. The essential point of the position of money is that it carries with it the control of occupation. If we loan to the Government, or pay in taxes half or a larger proportion of our total income, we reduce our spending power in that proportion, and probably most of us reduce our spending power to more or less what we really need for carrying on life. We are not able to spend money in luxuries, and the power of spending is transferred to the Government. The Government will not spend it in luxuries, but on the requirements of the war, and, therefore, the people who are engaged in producing luxuries must perforce transfer their energies to producing what the country requires.

"In regard to the real usefulness of money in a situation like the present it seems necessary to distinguish between two kinds of money. Probably it can be accepted that bank deposits and bank credits generally do represent the result of genuine business. In a general sense there seems to be some sort of relation between the total of bank deposits and the total of what may be described as 'loose things.' On the other hand, the only legitimate use of paper money created by the Government (except in so far as it is in effect a gold certificate) is for the purpose of small purchases effected by cash carried in people's pockets. Out of this comes an obvious distinction between money for public purposes borrowed at interest from the people and coming out of bank deposits and purchasing power acquired by the Government through the issue of their own notes in excess of cash purchasing requirements, or by the establishment of credits not based on previous transactions. The sequence of production and consumption is represented in a progressive country by the steadily increasing deposits in the banks, and, generally speaking, the total of these deposits represents the legitimate limit of financing operations. A credit established direct by a government may conceivably be the means of stimulating some additional production, but in so far as it does that it must inevitably raise prices, and might easily be carried to a point of raising prices without increasing production. In other words, our powers of financing the war are ultimately limited by our powers of production."