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Severe Depression Not to Follow War

THAT *is the View of Prominent English Economist—General Future Outlook Regarded as Good—He Thinks if Result of War is Permanent, Basis May Be Formed for Great Commercial and Industrial Expansion.*

"THERE is no sufficient reason to hold that a great war must necessarily be followed by severe depression; and less than usual in this particular case, where an immense work of reparation will be required on the conclusion of the war."

This statement was made in an interview with an Associated Press correspondent by Professor Herbert Somerton Foxwell, director of Economics of St. John's College, Cambridge, and professor of political economy in the University of London. Professor Foxwell, in addition to his activities in these institutions, collected the most important private library on social and political economy in Europe.

"A contrary view rests largely, I think," he continued, "on our experience after 1815, and to a smaller extent after 1873. But the prolonged depression in both cases seems to me to have been mainly due to currency causes.

"The peace of 1815 was followed by what Hoffman and Roscher called a geldtheuerung, an absolute scarcity of currency; and a similar condition resulted in 1873 from the demonetization of silver. War or no war, prolonged depression must have resulted from currency causes alone; and there were other aggravating circumstances in each case to which I need not refer.

"It will be said that there must be, and should be, currency contraction after this war. Yes, in a sense—in the strict sense of the term currency. Note issues will be contracted in France, Russia and Germany, especially; not appreciably, if at all, in Great Britain.

"But modern business enterprise in the most advanced countries depends mainly on bank credits," he continued, "and these again, so far as they are limited at all, are mainly limited by relation not to currency in general, but to ultimate gold reserves. These reserves have been rather increased than diminished by this war. It is one of the most striking features that gold has been withdrawn from the circulation where it is useless as a basis of credit, and concentrated in the great reserves on whose strength the manufacture of commercial credit depends. I hope this result of the war may be permanent. If it is, we shall have the necessary basis for a great commercial and industrial expansion after the war.

"But then it will be said the war has positively destroyed a large part of the available machinery of production, and above all, of the most efficient and productive classes of the population.

"This last I take to be the capital injury due to the war, in a sense irreparable, in view of the mass of highly trained expert men who form the bulk of modern armies. These men cannot be replaced by any process much less elaborate than that for which their industrial efficiency was actually developed. The natural and acquired abilities of its people are the most valuable part of a nation's resources, and as the complication of business increases, so does the value of trained, as compared with crude, ability.

"I fully admit the gravity of this consideration. But, on the other hand, I would say that the discipline and physical training received by that portion of the army which returns to civil life will be of great economic value. This applies particularly to Great Britain. Want of discipline and town life have seriously handicapped us for all useful purposes. The higher moral tone evoked by the war will also be an immense gain.

"Further, I hold that existing resources, owing to dislocations in the machinery of demand and supply, are rarely fully utilized, perhaps by not from 5 to 20 per cent., say 10 per cent. on the average. After the peace there will for a time be almost unlimited demand and the factors of production will be working at full power for some years at least.

"As to capital, here of course there has been unbounded destruction of fixed capital and diversion of floating capital (existing and future supplies) to non-industrial purposes. For this the world will pay in the shape (*a*) of a certain shortage in necessary industrial capital (*b*) in the rise, for a prolonged period, of the rate of interest. This, like a tax, will add to the cost of production, and diminish the share of the world's output available as income for the human factors in production. This, again, is a serious injury. We can't make our omelette without breaking eggs. But if we get our omelette, who worries about the eggs? If, after all, we spoil the omelette, then we have made a dead loss of the eggs.

"We are fighting to crush German militarism," continued Professor Foxwell, "and the doctrine on which it quite logically rests. If we succeed, there will be an immense reduction in the military expenditure which has