Nation, State, and Economy

Contributions to the Politics and History of Our Time

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War and the Economy

1 The Economic Position of the Central Powers in the War

The economic aspects of the World War are unique in history in kind and in degree; nothing similar ever existed before nor ever will exist again. This combination of developments was in general conditioned both by the contemporary stage of development of the division of labor and state of war technique, but in particular by both the grouping of the belligerent powers and the particular features of their territories as far as geography and technique of production were concerned. Only the conjunction of a large number of preconditions could lead to the situation that was quite unsuitably summarized in Germany and Austria under the catchword "war economy." No opinion need be expressed whether this war will be the last one or whether still others will follow. But a war which puts one side in an economic position similar to that in which the Central Powers found themselves in this war will never be waged again. The reason is not only that the configuration of economic history of 1914 cannot return but also that no people can ever again experience the political and psychological preconditions that made a war of several years' duration under such circumstances still seem promising to the German people.

The economic side of the World War can scarcely be worse misunderstood than in saying that in any case "the understanding of most of these phenomena will not be furthered by a good knowledge of the conditions of the peacetime economies of 1913 but rather by adducing those of the peacetime economies of the fourteenth to eighteenth centuries or the war economy of Napoleonic times."[1] We can best see how

1. Cf. Otto Neurath, "Aufgabe, Methode und Leistungsfähigkeit der Kriegswirtschaftslehre," *Archiv für Sozialwissenschaft und Sozialpolitik*, vol. 44, 1917/1918, p. 765; cf., on the contrary, the discussion of Eulenburg, "Die wissenschaftliche Behandlung der Kriegswirtschaft," ibid., pp. 775–85.

much such an interpretation focuses on superficialities and how little it enables us to grasp the essence of the phenomena if we imagine, say, that the World War had been waged *ceteris paribus* at the stage of the international division of labor reached one hundred years before. It could not have become a war of starving out then; yet that was precisely its essence. Another grouping of the belligerent powers would also have resulted in quite a different picture.

The economic aspects of the World War can only be understood if one first keeps in view their dependence on the contemporary development of world economic relations of the individual national economies, in the first place of Germany's and Austria-Hungary's and then of England's also.

Economic history is the development of the division of labor. It starts with the self-contained household economy of the family, which is self-sufficient, which itself produces everything that it uses or consumes. The individual households are not economically differentiated. Each one serves only itself. No economic contact, no exchange of economic goods, occurs.

Recognition that work performed under the division of labor is more productive than work performed without the division of labor puts an end to the isolation of the individual economies. The trade principle, exchange, links the individual proprietors together. From a concern of individuals, the economy becomes a social matter. The division of labor advances step by step. First limited to only a narrow sphere, it extends itself more and more. The age of liberalism brought the greatest advances of this sort. In the first half of the nineteenth century the largest part of the population of the European countryside, in general, still lived in economic self-sufficiency. The peasant consumed only foodstuffs that he himself had grown; he wore clothes of wool or linen for which he himself had produced the raw material, which was then spun, woven, and sewn in his household. He had built a house and farm buildings and maintained them himself, perhaps with the help of neighbors, whom he repaid with similar services. In the out-of-the-way valleys of the Carpathians, in Albania, and in Macedonia, cut off from the world, similar conditions still existed at the outbreak of the World War. How little this economic structure corresponds, however, to what exists today in the rest of Europe is too well known to require more detailed description.

The locational development of the division of labor leads toward a full world economy, that is, toward a situation in which each productive

activity moves to those places that are most favorable for productivity; and in doing so, comparisons are made with all the production possibilities of the earth's surface. Such relocations of production go on continually, as, for example, when sheep-raising declines in Central Europe and expands in Australia or when the linen production of Europe is displaced by the cotton production of America, Asia, and Africa.

No less important than the spatial division of labor is the personal kind. It is in part conditioned by the spatial division of labor. When branches of production are differentiated by locality, then personal differentiation of producers must also occur. If we wear Australian wool on our bodies and consume Siberian butter, then it is naturally not possible that the producer of the wool and of the butter are one and the same person, as once was the case. Indeed, the personal division of labor also develops independently of the spatial, as every walk through our cities or even only through the halls of a factory teaches us.

The dependence of the conduct of war on the stage of development of the spatial division of labor reached at the time does not in itself, even today, make every war impossible. Individual states can find themselves at war without their world economic relations being essentially affected thereby. A German-French war would have been bound to lead or could have led to an economic collapse of Germany just as little in 1914 as in 1870–71. But today it must seem utterly impossible for one or several states cut off from world trade to wage war against an opponent enjoying free trade with the outside world.

This development of spatial division of labor is also what makes local uprisings appear quite hopeless from the start. As late as the year 1882, the people around the Gulf of Kotor and the Herzegovinians could successfully rebel against the Austrian government for weeks and months without suffering shortages in their economic system, composed of autarkic households. In Westphalia or Silesia, an uprising that stretched only over so small a territory could already at that time have been suppressed in a few days by blocking shipments into it. Centuries ago, cities could wage war against the countryside; for a long time now that has no longer been possible. The development of the spatial division of labor, its progress toward a world economy, works more effectively for peace than all the efforts of the pacifists. Mere recognition of the worldwide economic linkage of material interests would have shown the German militarists the danger, indeed impossibility, of their efforts. They were so much caught up in their power-policy ideas, however, that they were

never able to pronounce the peaceful term "world economy" otherwise than in warlike lines of thought. Global policy was for them synonymous with war policy, naval construction, and hatred of England.[2]

That economic dependence on world trade must be of decisive significance for the outcome of a campaign could naturally not also escape those who had occupied themselves for decades with preparation for war in the German Reich. If they still did not realize that Germany, even if only because of its economic position, could not successfully wage a great war with several great powers, well, two factors were decisive for that, one political and one military. Helfferich summarized the former in the following words: "The very position of Germany's borders as good as rules out the possibility of lengthy stoppage of grain imports. We have so many neighbors—first the high seas, then Holland, Belgium, France, Switzerland, Austria, Russia—that it seems quite inconceivable that the many routes of grain import by water and by land could all be blocked to us at once. The whole world would have to be in alliance against us; however, to consider such a possibility seriously, even for a minute, means having a boundless mistrust in our foreign policy."[3] Militarily, however, recalling the experiences of the European wars of 1859, 1866, and 1870–71, people believed that they had to reckon with a war lasting only a few months, even weeks. All German war plans were based on the idea of success in completely defeating France within a few weeks. Anyone who might have considered that the war would last long enough for the English and even the Americans to appear on the European continent with armies of millions would have been laughed down in Berlin. That the war would become a war of emplacements was not understood at all; despite the experiences of the

2. Especially characteristic of this tendency are the speeches and essays published by Schmoller, Sering, and Wagner under the auspices of the "Free Association for Naval Treaties" under the title *Handels- und Machtpolitik* (Stuttgart: 1900), 2 volumes.

3. Cf. Helfferich, *Handelspolitik* (Leipzig: 1901), p. 197; similarly Dietzel, "Weltwirtschaft und Volkswirtschaft," *Jahrbuch der Gehe-Stiftung*, vol. 5 (Dresden: 1900), pp. 46 f.; Riesser, *Finanzielle Kriegsbereitschaft und Kriegsführung* (Jena: 1909), pp. 73 f. Bernhardi speaks of the necessity of taking measures to prepare ways during a German-English war "by which we can obtain the most necessary imports of foods and raw materials and at the same time export the surplus of our industrial products at least partially" (*Deutschland und der nächste Krieg* [Stuttgart: 1912], pp. 179 f.). He proposes making provisions for "a kind of commercial mobilization." What illusions about the political situation he thereby indulged in can best be seen from his thinking that in a fight against England (and France allied with it), we would "not stand spiritually alone, but rather all on the wide earthly sphere who think and feel freedom-oriented and self-confident will be united with us" (ibid., p. 187).

Russo-Japanese war, people believed that they could end the European war in a short time by rapid offensive strikes.[4] The military calculations of the General Staff were just as false as its economic and political ones.

The assertion is not true, therefore, that the German Empire had neglected to make the necessary economic preparations for war. It simply had counted on a war of only short duration; for a short war, however, no economic provisions had to be made beyond those of finance and credit policy. Before the outbreak of the war the idea would no doubt have been called absurd that Germany could ever be forced to fight almost the whole rest of the world for many years in alliance only with Austria-Hungary (or more exactly in alliance with the German-Austrians and the Magyars, for the Slavs and Rumanians of the Monarchy stood with their hearts — and many of them also with weapons — on the side of the enemy), Turkey, and Bulgaria. And in any case one would have had to

4. Modern war theory started with the view that attack is the superior method of waging war. It corresponds to the spirit of conquest-hungry militarism when Bernhardi argues for this: "Only attack achieves positive results; mere defense always delivers only negative ones." (Cf. Bernhardi, *Vom heutigen Krieg* [Berlin: 1912], vol. 2, p. 223.) The argumentation for the attack theory was not merely political, however, but was also based on military science. Attack appears as the superior form of fighting because the attacker has free choice of the direction, of the goal, and of the place of the operations, because he, as the active party, determines the conditions under which the fight is carried out, in short, because he dictates to the party under attack the rules of action. Since, however, the defense is tactically stronger in the front than the offense, the attacker must strive to get around the flank of the defender. That was old war theory, newly proved by the victories of Frederick II, Napoleon I, and Moltke and by the defeats of Mack, Gyulai, and Benedek. It determined the behavior of the French at the beginning of the war (Mulhouse). It was what impelled the German army administration to embark on the march through neutral Belgium in order to hit the French on the flank because they were unattackable in the front. His remembering the many Austrian commanders for whom the defensive had become misfortune drove Conrad in 1914 to open the campaign with goalless and purposeless offensives in which the flower of the Austrian army was uselessly sacrificed. But the time of battles of the old style, which permitted getting around the opponent's flank, was past on the great European theaters of war, since the massiveness of the armies and the tactics that had been reshaped by modern weapons and means of communication offered the possibility of arranging the armies in such a way that a flank attack was no longer possible. Flanks that rest on the sea or on neutral territory cannot be gotten around. Only frontal attack still remains, but it fails against an equally well-armed opponent. The great breakthrough offensives in this war succeeded only against badly armed opponents, as especially the Russians were in 1915 and in many respects also the Germans in 1918. Against inferior troops a frontal attack could of course succeed even against equally good, even superior, weapons and armaments of the defender (twelfth battle of the Isonzo). Otherwise, the old tactics could be applied only in the battles of mobile warfare (Tannenberg and the Masurian Lakes in 1914 and individual battles in Galicia). To have misunderstood this has been the tragic fate of German militarism. The whole German policy was built on the theorem of the military superiority of attack; in war of emplacements the policy broke down with the theorem.

recognize, after calm reflection, that such a war neither could have been waged nor should have been waged and that if an unspeakably bad policy had let it break out, then one should have tried to conclude peace as quickly as possible, even at the price of great sacrifices. For, indeed, there never could be any doubt that the end could be only a fearful defeat that would deliver the German people defenseless to the harshest terms of its opponents. Under such circumstances a quick peace would at least have spared goods and blood.

That should have been recognized at once even in the first weeks of the war and the only possible implications then drawn. From the first days of the war — at the latest, however, after the defeats on the Marne and in Galicia in September 1914 — there was only *one* rational goal for German policy: peace, even if at the price of heavy sacrifices. Let us quite disregard the fact that until the summer of 1918 it was repeatedly possible to obtain peace under halfway acceptable conditions, that the Germans of Alsace, the South Tyrol, the Sudetenland, and the eastern provinces of Prussia could probably have been protected from foreign rule in that way; even then, if continuation of the war might have afforded a slightly more favorable peace, the incomparably great sacrifices that continuation of the war required should not have been made. That this did not happen, that the hopeless, suicidal fight was continued for years, political considerations and grave errors in the military assessment of events were primarily responsible.[5] But delusions about economic policy also contributed much.

Right at the beginning of the war a catchword turned up whose unfortunate consequences cannot be completely overlooked even today: the verbal fetish "war economy." With this term all considerations were beaten down that could have led to a conclusion advising against continuing the war. With this one term all economic thought was put aside; ideas carried over from the "peacetime economy" were said not to hold for the "war economy," which obeyed other laws. Armed with this catchword, a few bureaucrats and officers who had gained full power by exceptional decrees substituted "war socialism" for what state socialism and militarism had still left of the free economy. And when the hungry people began to grumble, they were calmed again by reference to the

5. It was an incomprehensible delusion to speak of the possibility of a victorious peace when German failure had already been settled from the time of the battle of the Marne. But the Junker party preferred to let the German people be entirely ruined rather than give up its rule even one day earlier.

"war economy." If an English cabinet minister had voiced the watchword "business as usual" at the beginning of the war, which, however, could not be continued in England as the war went on, well, people in Germany and Austria took pride in traveling paths as new as possible. They "organized" and did not notice that what they were doing was organizing defeat.

The greatest economic achievement that the German people accomplished during the war, the conversion of industry to war needs, was not the work of state intervention; it was the result of the free economy. If, also, what was accomplished in the Reich in this respect was much more significant in absolute quantity than what was done in Austria, it should not be overlooked that the task which Austrian industry had to solve was still greater in relation to its powers. Austrian industry not only had to deliver what the war required beyond peacetime provisions; it also had to catch up on what had been neglected in peacetime. The guns with which the Austro-Hungarian field artillery went to war were inferior; the heavy and light field howitzers and the mountain cannons were already out of date at the time of their introduction and scarcely satisfied the most modest demands. These guns came from state factories; and now private industry, which in peacetime had been excluded from supplying field and mountain guns and could supply such material only to China and Turkey, had to produce not only the material for expanding the artillery, but also to replace the unusable models of the old batteries with better ones. Things were not much different with the clothing and shoeing of the Austro-Hungarian troops. The so-called bluish-gray—more correctly, light blue—fabrics proved to be unusable in the field and had to be replaced as rapidly as possible by gray ones. Supplying the army with boots, which in peacetime had been carried out exclusively by the market-oriented mechanized shoe industry, had to be turned over to the management of factories which had previously been avoided.

The great technical superiority that the armies of the Central Powers had achieved in the spring and summer of 1915 in the eastern theater of the war and that formed the chief basis of the victorious campaign from Tarnów and Gorlice to deep into Volhynia was likewise the work of free industry, as were the astonishing achievements of German and also of Austrian labor in the delivery of war material of all kinds for the western and the Italian theaters of war. The army administrations of Germany

and Austro-Hungary knew very well why they did not give in to the pressure for state ownership of the war-supplying enterprises. They put aside their outspoken preference for state enterprises oriented toward power policy and state omnipotence, which would have better suited their worldview, because they knew quite well that the great industrial tasks to be accomplished in this area could be accomplished only by entrepreneurs operating on their own responsibility and with their own resources. War socialism knew very well why it had not been entrusted with the armaments enterprises right in the first years of the war.

2 War Socialism

So-called war socialism has been regarded as sufficiently argued for and justified with reference mostly to the emergency created by the war. In war, the inadequate free economy supposedly cannot be allowed to exist any longer; into its place must step something more perfect, the administered economy. Whether or not one should return after the war to the "un-German" system of individualism was said to be another question that could be answered in different ways.

This argumentation for war socialism is just as inadequate as it is characteristic of the political thinking of a people that was hampered in every free expression of views by the despotism of the war party. It is inadequate because it could really be a powerful argument only if it had been established that the organized economy is capable of yielding higher outputs than the free economy; that, however, would first have to be proved. For the socialists, who advocate the socialization of the means of production anyway and want to abolish the anarchy of production thereby, a state of war is not first required to justify socializing measures. For the opponents of socialism, however, the reference to the war and its economic consequences is also no circumstance that could recommend such measures. For anyone of the opinion that the free economy is the superior form of economic activity, precisely the need created by the war had to be a new reason demanding that all obstacles standing in the way of free competition be set aside. War as such does not demand a [centrally] organized economy, even though it may set certain limits in several directions to the pursuit of economic interests. In the age of liberalism, even a war of the extent of the World War (so far as such a war would have been

thinkable at all in a liberal and therefore pacifistic age) would in no way have furthered tendencies toward socialization.

The most usual argument for the necessity of socialist measures was the argument about being besieged. Germany and its allies were said to be in the position of a besieged fortress that the enemy was trying to conquer by starving it out. Against such a danger, all measures usual in a besieged city had to be applied. All stocks had to be regarded as a mass under the control of a unified administration that could be drawn on for equally meeting the needs of all, and so consumption had to be rationed.

This line of argument starts from indisputable facts. It is clear that starving out (in the broadest sense of the term), which in the history of warfare had generally been used only as a tactical means, was used in this war as a strategic means.[6] But the conclusions drawn from the facts were mistaken. Once one thought that the position of the Central Powers was comparable to that of a besieged fortress, one would have had to draw the only conclusions that could be drawn from the military point of view. One would have had to remember that a besieged place, by all experience of military history, was bound to be starved out and that its fall could be prevented only by help from outside. The program of "hanging on" would then have made sense only if one could count on time's working for the besieged side. Since, however, help from outside could not be expected, one should not have shut one's eyes to the knowledge that the position of the Central Powers was becoming worse from day to day and that it was therefore necessary to make peace, even if making peace would have imposed sacrifices that did not seem justified by the tactical position of the moment. For the opponents would still have been ready to make concessions if they, for their part, had received something in return for the shortening of the war.

It cannot be assumed that the German General Staff had overlooked this. If it nevertheless clung to the slogan about "hanging on," that reflected not so much a misunderstanding of the military position as the hope for a particular psychic disposition of the opponent. The Anglo-Saxon nation of shopkeepers would get tired sooner than the peoples of the Central Powers, who were used to war. Once the English, also, felt the war, once they felt the satisfaction of their needs being limited, they

6. One war in which starving the opponent out was used as a strategic means was the Herero uprising in German Southwest Africa in 1904; in a certain sense the Civil War in North America and the last Boer War can also count here.

would turn out to be much more sensitive than the Central Europeans. This grave error, this misunderstanding of the psyche of the English people, also led to adoption first of limited and then of unlimited submarine warfare. The submarine war rested on still other false calculations, on an overestimation of one's own effectiveness and on an underestimation of the opponent's defense measures, and finally on a complete misunderstanding of the political preconditions of waging war and of what is permitted in war. But it is not the task of this book to discuss these questions. Settling accounts with the forces that pushed the German people into this suicidal adventure may be left to more qualified persons.

But quite apart from these deficiencies, which more concern the generally military side of the question, the theory of siege socialism also suffers from serious defects concerning economic policy.

When Germany was compared with a besieged city, it was overlooked that this comparison was applicable only with regard to those goods that were not produced at home and also could not be replaced by goods producible at home. For these goods, apart from luxury articles, the rationing of consumption was in any case indicated at the moment when, with the tightening of the blockade and with the entry of Italy and Rumania into the war, all import possibilities were cut off. Until then it would have been better, of course, to allow full free trade, at least for the quantities imported from abroad, in order not to reduce the incentive to obtain them in indirect ways. It was mistaken in any case, as happened at the beginning of the war, especially in Austria, to resist price rises of these goods by penal measures. If the traders had held the goods back with speculative intent to achieve price increases, this would have limited consumption effectively right at the beginning of the war. The limitation of price increases was bound, therefore, to have downright harmful consequences. For those goods that could in no way be produced at home and also could not be replaced by substitutes producible at home, the state would better have set minimum rather than maximum prices to limit consumption as much as possible.

Speculation anticipates future price changes; its economic function consists in evening out price differences between different places and different points in time and, through the pressure which prices exert on production and consumption, in adapting stocks and demands to each other. If speculation began to exact higher prices at the beginning of the war, then it did indeed temporarily bring about a rise of prices beyond

the level that would have been established in its absence. Indeed, since consumption would also thus be limited, the stock of goods available for use later in the war was bound to rise and thus would have led to a moderation of prices at that later time in relation to the level that was bound to have been established in the absence of speculation. If this indispensable economic function of speculation was to be excluded, something else should have immediately been put in its place, perhaps confiscation of all stocks and state management and rationing. In no way, however, was it suitable simply to be content with penal intervention.

When the war broke out, citizens expected a war lasting about three to six months. The merchant arranged his speculation accordingly. If the state had known better, it would have had the duty of intervening. If it thought that the war would already be ended in four weeks, then it could have intervened to keep price increases from being larger than seemed necessary for bringing stocks into harmony with demand. For that, too, fixing maximum prices would not have sufficed. If, however, the state thought that the war would last far longer than civilians thought, then it should have intervened, either by fixing minimum prices or by purchase of goods for the purpose of state stockpiling. For there was a danger that speculative traders, not familiar with the secret intentions and plans of the General Staff, would not immediately drive up prices to the extent necessary to assure the distribution of the small stocks on hand over the entire duration of the war. That would have been a case in which the intervention of the state in prices would have been thoroughly necessary and justified. That that did not happen is easy to explain. The military and political authorities were informed least of all about the prospective duration of the war. For that reason all their preparations failed, military as well as political and economic ones.

With regard to all those goods that even despite the war could be produced in territory of the Central Powers free of the enemy, the siege argument was already totally inapplicable. It was dilettantism of the worst sort to set maximum prices for these goods. Production could have been stimulated only by high prices; the limitation of price increases throttled it. It is hardly astonishing that state compulsion for cultivation and production failed.

It will be the task of economic history to describe in detail the stupidities of the economic policy of the Central Powers during the war. At one time, for example, the word was given to reduce the livestock by

increased slaughtering because of a shortage of fodder; then prohibitions of slaughtering were issued and measures taken to promote the raising of livestock. Similar planlessness reigned in all sectors. Measures and countermeasures crossed each other until the whole structure of economic activity was in ruins.

The most harmful effect of the policy of siege socialism was the cutting off of districts with surpluses of agricultural production from territories in which consumption exceeded production. It is easy to understand why the Czech district leaders in the Sudetenland, whose hearts were on the side of the Entente, sought as much as possible to limit the export of foodstuffs out of the districts under their leadership to the German parts of Austria and, above all, to Vienna. It is less understandable that the Vienna government put up with this and that it also put up with its imitation by the German districts and also with the fact that Hungary shut itself off from Austria, so that famine was already prevailing in Vienna while abundant stocks were still on hand in the countryside and in Hungary. Quite incomprehensible, however, is the fact that the same policy of regional segmentation took hold in the German Reich also and that the agrarian districts there were permitted to cut themselves off from the industrial ones. That the population of the big cities did not rebel against this policy can be explained only by its being caught up in statist conceptions of economic life, by its blind belief in the omnipotence of official intervention, and by its decades-long ingrained mistrust of all freedom.

While statism sought to avoid the inevitable collapse, it only hastened it.

3 Autarky and Stockpiling

The clearer it had to become in the course of the war that the Central Powers were bound to be finally defeated in the war of starving out, the more energetically were references made from various sides to the necessity of preparing better for the next war. The economy would have to be reshaped in such a way that Germany would be capable of withstanding even a war of several years. It would have to be able to produce inside the country everything required for feeding its population and for equipping and arming its armies and fleets in order to be no longer dependent on foreign countries in this respect.

No long discussions are needed to show that this program cannot be carried out. It cannot be carried out because the German Reich is too densely populated for all foodstuffs needed by its population to be produced at home without use of foreign raw materials and because a number of raw materials needed for production of modern war material just do not exist in Germany. The theorists of the war economy commit a fallacy when they try to prove the possibility of an autarkic German economy by reference to the usability of substitute materials. One supposedly must not always use foreign products; there are domestic products scarcely inferior to foreign ones in quality and cheapness. For the German spirit, which has already famously distinguished itself in applied science, a great task arises here which it will solve splendidly. The efforts previously made in this field have led to favorable results. We are said already to be richer now than we were before, since we have learned how to exploit better than before materials that earlier were neglected or were used for less important purposes or not fully used.

The error in this line of thinking is obvious. It may well be true that applied science is far from yet having spoken the last word, that we may still count on improvements in technology that will be no less significant than the invention of the steam engine and of the electric motor. And it may happen that one or the other of these inventions will find the most favorable preconditions for its application precisely on German soil, that it will perhaps consist precisely in making useful a material that is abundantly available in Germany. But then the significance of this invention would lie precisely in shifting the locational circumstances of a branch of production, in making the productive conditions of a country that were previously to be regarded as less favorable more favorable under the given circumstances. Such shifts have often occurred in history and will occur again and again. We will hope that they occur in the future in such a way that Germany will become, to a higher degree than at present, a country of more favorable conditions of production. If that should happen, then many burdens will be lifted from the German people.

Yet these changes in the relative pattern of conditions of production must be sharply distinguished from introducing the use of substitute materials and producing goods under worse conditions of production. One can of course use linen instead of cotton and wooden soles instead of leather soles. However, in the former case one has replaced a cheaper

by a dearer material, that is, by one in whose production more costs must be incurred, and in the latter case a better by a less usable material. That means, however, that the meeting of needs becomes worse. That we use paper sacks instead of jute sacks and iron tires on vehicles instead of rubber tires, that we drink "war" coffee instead of real coffee, shows that we become poorer, not richer. And if we now carefully put to use garbage that we had earlier thrown away, then this makes us richer just as little as if we obtained copper by melting works of art.[7] To be sure, living well is not the highest good; and there may be reasons for peoples as well as individuals to prefer a life of poverty to a life of luxury. But then let that be said openly without taking refuge in artificial theorems that try to make black out of white and white out of black; then let no one seek to obscure the clear case by allegedly economic arguments.[8]

It should not be disputed that war needs can beget and, in fact, have begotten many useful inventions. How much they represent a lasting enrichment of the German economy can be known only later.

Only those proponents of the idea of autarky who subordinate all other goals to the military one are thinking consistently. He who sees all values as realized only in the state and thinks of the state above all as a military organization always ready for war must demand of the economic policy of the future that it strive, pushing all other considerations aside, to organize the domestic economy for self-sufficiency in case of war. Regardless of the higher costs that thereby arise, production must be guided into the channels designated as most suitable by the economic general staff. If the standard of living of the population thereby suffers, well, in view of the high objective to be attained, that does not count at all. Not the standard of living is the greatest happiness of people, but fulfillment of duty.

But there is a grave error in this line of thinking also. Admittedly it is possible, if one disregards costs, to produce within the country everything necessary for waging war. But in war it is important not only that weapons and war material just be on hand but also that they be available

7. Cf. Dietzel, *Die Nationalisierung der Kriegsmilliarden* (Tübingen: 1919), pp. 31 ff.

8. Not only economists have been active in this direction; still more has been done by technicians, but most by physicians. Biologists who, before the war, declared the nutrition of the German industrial worker to be inadequate suddenly discovered during the war that food poor in protein is especially wholesome, that fat consumption in excess of the quantity permitted by the authorities is damaging to health, and that a limitation of the consumption of carbohydrates has little significance.

in sufficient quantity and in best quality. A people that must produce them under more unfavorable conditions of production, that is, with higher costs, will go into the field worse provisioned, equipped, and armed than its opponents. Of course, the inferiority of material supplies can to a certain extent be offset by the personal excellence of the combatants. But we have learned anew in this war that there is a limit beyond which all bravery and all sacrifice are of no use.

From recognition that efforts for autarky could not be carried through, there arose the plan for a future state stockpiling system. In preparation for the possible return of a war of starvation, the state must build up stockpiles of all important raw materials that cannot be produced at home. In that connection a large stock of grain was also thought of, and even stocks of fodder.[9]

From the economic standpoint, the realization of these proposals does not seem inconceivable. From the political standpoint, though, it is quite hopeless. It is scarcely to be assumed that other nations would calmly look on at the piling up of such war stocks in Germany and not, for their part, resort to countermeasures. To foil the whole plan, they indeed need only watch over the exports of the materials in question and each time permit the export only of such quantities as do not exceed the current demand.

What has quite incorrectly been called war economy is the economic preconditions for waging war. All waging of war is dependent on the state of the division of labor reached at the time. Autarkic economies can go to war against each other; the individual parts of a labor and trade community can do so, however, only insofar as they are in a position to go back to autarky. For that reason, with the progress of the division of labor we see the number of wars and battles diminishing ever more and more. The spirit of industrialism, which is indefatigably active in the development of trade relations, undermines the warlike spirit. The great steps forward that the world economy made in the age of liberalism considerably narrowed the scope remaining for military actions. When those strata of the German people who had the deepest insight into the world economic interdependence of the individual national economies doubted whether it was still at all possible that a war could develop and, if that should happen at all, expected at most a

9. Cf. Hermann Levy, *Vorratswirtschaft und Volkswirtschaft* (Berlin: Verlag von Julius Springer), 1915, pp. 9 ff.; Naumann, *Mitteleuropa*, pp. 149 f; Diehl, *Deutschland als geschlossener Handelsstaat im Weltkrieg* (Stuttgart: 1916), pp. 28 f.

war that would end quickly, they thereby showed better understanding of the realities of life than those who indulged in the delusion that even in the age of world trade one could practice the political and military principles of the Thirty Years' War.

When one examines the catchword about war economy for its content, it turns out that it contains nothing other than the demand to turn economic development back to a stage more favorable for waging war than the 1914 stage was. It is a question only of how far one should go in doing that. Should one go back only as far as to make warfare between great states possible, or should one try to make warfare possible between individual parts of a country and between city and countryside also? Should only Germany be put in a position to wage war against the entire remaining world, or should it also be made possible for Berlin to wage war against the rest of Germany?

Whoever on ethical grounds wants to maintain war permanently for its own sake as a feature of relations among peoples must clearly realize that this can happen only at the cost of the general welfare, since the economic development of the world would have to be turned back at least to the state of the year 1830 to realize this martial ideal even only to some extent.

4 The Economy's War Costs and the Inflation

The losses that the national economy suffers from war, apart from the disadvantages that exclusion from world trade entails, consist of the destruction of goods by military actions, the consumption of war materiel of all kinds, and the loss of productive labor that the persons drawn into military service would have rendered in their civilian activities. Further losses from loss of labor occur insofar as the number of workers is lastingly reduced by the number of the fallen and as the survivors become less fit in consequence of injuries suffered, hardships undergone, illnesses suffered, and worsened nutrition. These losses are only to the slightest degree offset by the fact that the war works as a dynamic factor and spurs the population to improve the technique of production. Even the increase in the number of workers that has taken place in the war by drawing on the otherwise unused labor of women and children and by extension of hours of work, as well as the saving achieved by limitation of consumption, still does not counterbalance them, so that the

economy finally comes out of the war with a considerable loss of wealth. Economically considered, war and revolution are always bad business, unless such an improvement of the production process of the national economy results from them that the additional amount of goods produced after the war can compensate for the losses of the war. The socialist who is convinced that the socialist order of society will multiply the productivity of the economy may think little of the sacrifices that the social revolution will cost.

But even a war that is disadvantageous for the world economy can enrich individual nations or states. If the victorious state is able to lay such burdens on the vanquished that not only all of its war costs are thereby covered but a surplus is acquired also, then the war has been advantageous for it. The militaristic idea rests on the belief that such war gains are possible and can be lastingly held. A people who believes that it can gain its bread more easily by waging war than by work can hardly be convinced that it is more pleasing to God to suffer injustice than to commit injustice. The theory of militarism can be refuted; if, however, one cannot refute it, one cannot, by appeal to ethical factors, persuade the stronger party to forgo the use of its power.

The pacifistic line of argument goes too far if it simply denies that a people can gain by war. Criticism of militarism must begin by raising the question whether the victor can then definitely count on always remaining the stronger or whether he must not fear being displaced by still stronger parties. The militaristic argumentation can defend itself from objections raised against it from this point of view only if it starts with the assumption of unchangeable race characters. The members of the higher race, who behave according to pacifistic principles among themselves, hold firmly together against the lower races that they are striving to subjugate and thus assure themselves eternal predominance. But the possibility that differences will arise among the members of the higher races, leading part of their members to join with the lower races in battle against the remaining members of the higher ones, itself shows the danger of the militaristic state of affairs for all parties. If one entirely drops the assumption of the constancy of race characters and considers it conceivable that the race that had been stronger before will be surpassed by one that had been weaker, then it is evident that each party must consider that it could be faced with new battles in which it too could be defeated. Under these assumptions, the militaristic theory cannot be maintained. There no longer is any sure war gain, and the militaristic

state of affairs appears as a situation of constant battles, at least, which shatter welfare so badly that finally even the victor obtains less than he would have harvested in the pacifistic situation.

In any case, not too much economic insight is needed to recognize that a war means at least direct destruction of goods, and misery. It was clear to everyone that the very outbreak of the war had to bring harmful interruptions in business life on the whole, and in Germany and Austria at the beginning of August 1914 people faced the future with fear. Astonishingly, however, things seemed to work otherwise. Instead of the expected crisis came a period of good business; instead of decline, boom. People found that war was prosperity; businessmen who, before the war, were thoroughly peace-minded and were always reproached by the friends of war for the anxiety that they were always showing at every flare-up of war rumors now began to reconcile themselves to the war. All at once there were no longer any unsalable products; enterprises that for years had run only at a loss yielded rich profits. Unemployment, which had assumed a menacing extent in the first days and weeks of the war, disappeared completely, and wages rose. The entire economy presented the picture of a gratifying boom. Soon writers appeared who sought to explain the causes of this boom.[10]

Every unprejudiced person can naturally have no doubt that war can really cause no economic boom, at least not directly, since an increase in wealth never does result from destruction of goods. It would scarcely have been too difficult to understand that war does bring good sales opportunities for all producers of weapons, munitions, and army equipment of every kind but that what these sellers gain is offset on the other hand by losses of other branches of production and that the real war losses of the economy are not affected thereby. War prosperity is like the prosperity that an earthquake or a plague brings. The earthquake means good business for construction workers, and cholera improves

10. The majority of authors, in conformity with the intellectual tendency of statism, did not occupy themselves with the explanation of the causes of the good course of business but rather discussed the question whether the war "should be allowed to bring prosperity." Among those who sought to give an explanation of the economic boom in war should be mentioned above all Neurath ("Die Kriegswirtschaft," reprint from the *Jahresbericht der Neuen Wiener Handelsakademie*, V [16], 1910, pp. 10 ff.), since he—following in the steps of Carey, List, and Henry George—had already before the war, in this as in other questions of "war economy," adopted the standpoint that gained broad diffusion in Germany during the war. The most naive representative of this view that war creates wealth is Steinmann-Bucher, *Deutschlands Volksvermögen im Krieg*, second edition (Stuttgart: 1916), pp. 40, 85 ff.

the business of physicians, pharmacists, and undertakers; but no one has for those reasons yet sought to celebrate earthquakes and cholera as stimulators of the productive forces in the general interest.

Starting with the observation that war furthers the business of the armament industry, many writers have sought to trace war to the machinations of those interested in war industry. This view appears to find superficial support in the behavior of the armament industry and of heavy industry in general. The most energetic advocates of the imperialistic policy were admittedly found in Germany not in the circles of industry but in those of the intellectual occupations, above all of officials and teachers. The financial means for war propaganda were provided before and during the war, however, by the armament industry. The armament industry created militarism and imperialism, however, just as little as, say, the distilleries created alcoholism or publishing houses trashy literature. The supply of weapons did not call forth the demand, but rather the other way around. The leaders of the armament industry are not themselves bloodthirsty; they would just as gladly earn money by producing other commodities. They produce cannons and guns because demand for them exists; they would just as gladly produce peacetime articles if they could do a better business with them.[11]

Recognition of this connection of things would have been bound to become widespread soon, and people would have quickly recognized that the war boom was to the advantage of only a small part of the population but that the economy as a whole was becoming poorer day by day, if inflation had not drawn a veil around all these facts, a veil impenetrable to a way of thinking that statism had made unaccustomed to every economic consideration.

To grasp the significance of inflation, it helps to imagine it and all of its consequences taken out of the picture of the war economy. Let us imagine that the state had forsworn that aid for its finances that it resorted

11. It is a mania of the statists to suspect the machinations of "special interests" in all that does not please them. Thus, Italy's entry into the war was traced to the work of propaganda paid for by England and France. Annunzio is said to have been bribed, and so on. Will one perhaps assert that Leopardi and Giusti, Silvio Pellico and Garibaldi, Mazzini and Cavour had also sold themselves? Yet their spirit influenced the position of Italy in this war more than the activity of any contemporary. The failures of German foreign policy are in large part to be traced to this way of thinking, which makes it impossible to grasp the realities of the world.

to by issuing paper money of every kind. It is clear that the issue of notes—if we disregard the relatively insignificant quantities of goods obtained from neutral foreign countries as a counterpart of gold withdrawn from circulation and exported—in no way increased the material and human means of waging war. By the issue of paper money not *one* cannon, not *one* grenade more was produced than could have been produced even without putting the printing press into operation. After all, war is waged not with "money" but with the goods that are acquired for money. For the production of war goods, it was a matter of indifference whether the quantity of money with which they were bought was greater or smaller.

The war considerably increased the demand for money. Many economic units were impelled to enlarge their cash balances, since the greater use of cash payments in place of the granting of long-term credit (which had been usual earlier), the worsening of trading arrangements, and growing insecurity had changed the entire structure of the payments system. The many military offices that were newly established during the war or whose range of activity was broadened, together with the extension of the monetary circulation of the Central Powers into the occupied territories, contributed to enlarging of the economy's demand for money. This rise in the demand for money created a tendency toward a rise in its value, that is to say, toward an increase in the purchasing power of the money unit, which worked against the opposite tendency unleashed by the increased issue of banknotes.

If the volume of note issue had not gone beyond what business could have absorbed in view of the war-induced increase in the demand for money, merely checking any increase in the value of money, then not many words would have to be spent on it. In fact, though, the banknote expansion was far greater. The longer war continued, the more actively was the printing press put into the service of the financial administration. The consequences occurred that the quantity theory describes. The prices of all goods and services, and with them the prices of foreign bills of exchange, went up.

The sinking of the value of money favored all debtors and harmed all creditors. That, however, does not exhaust the social symptoms of change in the value of money. The price rise caused by an increase in the quantity of money does not appear at one stroke in the entire economy and for all goods, for the additional quantity of money distributes

itself only gradually. At first it flows to particular establishments and particular branches of production and therefore first increases only the demands for particular goods, not for all; only later do other goods also rise in price. "During the issue of notes," say Auspitz and Lieben, "the additional means of circulation will be concentrated in the hands of a small fraction of the population, e.g., of the suppliers and producers of war materials. Consequently, these persons' demands for various articles will increase; and thus the prices and also the sales of the latter will rise, notably, however, also those of luxury articles. The situation of the producers of all these articles thereby improves; their demands for other goods will also increase; the rise of prices and sales will therefore progress even further and spread to an ever larger number of articles, and finally to all."[12]

If the decline in the value of money were to pervade the entire economy at one stroke and be registered against all goods to the same extent, then it would cause no redistribution of income and wealth. For in this respect there can only be a question of redistribution. The national economy as such gains nothing from it, and what the individual gains others must lose. Those who bring to market the goods and services whose prices are caught up first in the upward price movement are in the favorable position of already being able to sell at higher prices while still able to buy the goods and services that they want to acquire at the older, lower prices. On the other hand, again, those who sell goods and services that rise in price only later must already buy at higher prices while they themselves, in selling, are able to obtain only the older, lower prices. As long as the process of change in the value of money is still under way, such gains of some and losses of others will keep occurring. When the process has finally come to an end, then these gains and losses do also cease, but the gains and losses of the interim are not made up for again. The war suppliers in the broadest sense of the word (also including workers in war industries and military personnel who received increased war incomes) have therefore gained not only from enjoying good business in the ordinary sense of the word but also from the fact that the additional quantity of money flowed first to them. The price rise of the goods and services that they brought to market was a double one: it was caused first by the increased demand for their labor, but then, too, by the increased supply of money.

12. Cf. Auspitz and Lieben, *Untersuchungen über die Theorie des Preises* (Leipzig: 1889), pp. 64 f.

That is the essence of so-called war prosperity; it enriches some by what it takes from others. It is not rising wealth but a shifting of wealth and income.[13]

The wealth of Germany and of German-Austria was above all an abundance of capital. One may estimate the riches of the soil and the natural resources of our country ever so high; yet one must still admit that there are other countries that are more richly endowed by nature, whose soil is more fruitful, whose mines are more productive, whose water power is stronger, and whose territories are more easily accessible because of location relative to the sea, mountain ranges, and river courses. The advantages of the German national economy rest not on the natural factor but on the human factor of production and on a historically given head start. These advantages showed themselves in the relatively great accumulation of capital, mainly in the improvement of lands used for agriculture and forestry and in the abundant stock of produced means of production of all kinds, of streets, railroads, and other means of transportation, of buildings and their equipment, of machines and tools, and, finally, of already produced raw materials and semifinished goods. This capital had been accumulated by the German people through long work; it was the tool that German industrial workers used for their work and from whose application they lived. From year to year this stock was increased by thrift.

The natural forces dormant in the soil are not destroyed by appropriate use in the process of production; in this sense they form an eternal factor of production. The amounts of raw materials amassed in the ground represent only a limited stock that man consumes bit by bit without being able to replace it in any way. Capital goods also have no eternal existence; as produced means of production, as semifinished goods, which they represent in a broader sense of the term, they are transformed little by little in the production process into consumption goods. With some, with so-called circulating capital, this takes place more quickly; with others, with so-called fixed capital, more slowly. But the latter also is consumed in production. Machines and tools also have

13. Cf. Mises, *Theorie des Geldes und der Umlaufsmittel* (Munich: 1912), pp. 222 ff.; second edition translated by H. E. Batson as *The Theory of Money and Credit* (Indianapolis: Liberty Fund, 1981), pp. 251 ff. A clear description of conditions in Austria during the Napoleonic Wars is found in Grünberg, *Studien zur österreichischen Agrargeschichte* (Leipzig: 1901), pp. 121 ff.; also Broda, "Zur Frage der Konjunktur im und nach dem Kriege," *Archiv für Sozialwissenschaft*, vol. 45, pp. 40 ff.; also Rosenberg, *Valutafragen* (Vienna: 1917), pp. 14 ff.

no eternal existence; sooner or later they become worn out and unusable. Not only the increase but even the mere maintenance of the capital stock therefore presupposes a continual renewal of capital goods. Raw materials and semifinished goods which, changed into goods ready for use, are conveyed to consumption must be replaced by others; and machines and tools of all kinds worn out in the production process must be replaced by others to the extent that they wear out. Performing this task presupposes making a clear assessment of the extent of the wearing out and using up of productive goods. With means of production that always are to be replaced only with others of the same kind, this is not difficult. The road system of a country can be maintained by trying to hold the condition of the individual sections technically the same by ceaseless maintenance work, and it can be extended by repeatedly adding new roads or enlarging the existing ones. In a static society in which no changes in the economy take place, this method would be applicable to all means of production. In an economy subject to change, this simple method does not suffice for most means of production, for the used-up and worn-out means of production are replaced not by ones of the same kind but by others. Worn-out tools are replaced not by ones of the same kind but by better ones, if indeed the whole orientation of production is not changed and the replacement of capital goods consumed in a shrinking branch of production does not take place by installation of new capital goods in other branches of production that are being expanded or newly established. Calculation in physical units, which suffices for the primitive conditions of a stationary economy, must therefore be replaced by calculation of value in money.

Individual capital goods disappear in the production process. Capital as such, however, is maintained and expanded. That is not a natural necessity independent of the will of economizing persons, however, but rather the result of deliberate activity that arranges production and consumption so as at least to maintain the sum of value of capital and that allots to consumption only surpluses earned in addition. The precondition for that is the calculation of value, whose auxiliary means is accounting. The economic task of accounting is to test the success of production. It has to determine whether capital was increased, maintained, or diminished. The economic plan and the distribution of goods between production and consumption is then based on the results that it achieves.

Accounting is not perfect. The exactness of its numbers, which strongly impresses the uninitiated, is only apparent. The evaluation of goods and claims that it must work with is always based on estimates resting on the interpretation of more or less uncertain elements. Insofar as this uncertainty stems from the side of goods, commercial practice, approved by the norms of commercial legislation, tries to avoid it by proceeding as cautiously as possible; that is, it requires a low evaluation of assets and a high evaluation of liabilities. But the deficiencies of accounting also stem from the fact that evaluations are uncertain from the side of money, since the value of money is also subject to change. So far as commodity money, so-called full-value metallic money, is concerned, real life pays no regard to these deficiencies. Commercial practice, as well as the law, has fully adopted the naive business view that money is stable in value, that is, that the existing exchange relation between money and goods is subject to no change from the side of money.[14] Accounting assumes money to be stable in value. Only the fluctuations of credit and token-money currencies, so-called paper currencies, against commodity money were taken account of by commercial practice by setting up corresponding reserves and by write-offs. Unfortunately, German statist economics has paved the way for a change of perception on this point also. In nominalistic money theory, by extending the idea of the stability of value of metal money to all money as such, it created the preconditions for the calamitous effects of decline in the value of money that we now have to describe.

Entrepreneurs did not pay attention to the fact that the decline in the value of money now made all items in balance sheets become inaccurate. In drawing up balance sheets, they neglected to take account of the change in the value of money that had occurred since the last balance sheet. Thus it could happen that they regularly added a part of the original capital to the net revenue of the year, regarded it as profit, paid it out, and consumed it. The error which (in the balance sheet of a corporation) was made by not taking account of the depreciation of money on the liability side was only partly made up for by the fact that on the asset side also the components of wealth were not reported at a higher value. For this disregard of the rise in nominal value did not

14. On this, cf. Mises, *Theorie des Geldes und der Umlaufsmittel*, pp. 237 ff. (English translation, pp. 268 ff.).

apply to circulating capital also, since for inventories that were sold, the higher valuation did appear; it was precisely this that constituted the inflationary extra profit of enterprises. The disregard of the depreciation of money on the asset side remained limited to fixed investment capital and had as a consequence that in calculating depreciation, people used the smaller original amounts that corresponded to the old value of money. That enterprises often set up special reserves to prepare for reconversion to the peacetime economy could not, as a rule, make up for this.

The German economy entered the war with an abundant stock of raw materials and semifinished goods of all kinds. In peacetime, whatever of these stocks was devoted to use or consumption was regularly replaced. During the war the stocks were consumed without being able to be replaced. They disappeared out of the economy; the national wealth was reduced by their value. This could be obscured by the fact that in the wealth of the trader or producer, money claims appeared in their place — as a rule, war-loan claims. The businessman thought that he was as rich as before; generally he had sold the goods at better prices than he had hoped for in peacetime and now believed that he had become richer. At first he did not notice that his claims were being ever more devalued through the sinking of the value of money. The foreign securities that he possessed rose in price as expressed in marks or crowns. This too he counted as a gain.[15] If he wholly or partially consumed these apparent profits, then he diminished his capital without noticing it.[16]

The inflation thus drew a veil over capital consumption. The individual believed that he had become richer or had at least not lost, while in truth his wealth was dwindling. The state taxed these losses of individual economic units as "war profits" and spent the amounts collected for unproductive purposes. The public did not become tired, however, of concerning itself about the large war profits, which, in good part, were no profits at all.

15. The nominalists and chartalists among monetary theorists naturally agreed with this layman's view: that upon the sale of foreign securities, the increased nominal value received because of the decline of the currency represented a profit; cf. Bendixen, *Währungspolitik und Geldtheorie im Lichte des Weltkrieges* (Munich: 1916), p. 37. That is probably the lowest level to which monetary theory could sink.

16. It naturally would not have been possible to take account of these changes in accounting serving official purposes; this accounting had to be carried out in the legal currency. It would indeed have been possible, though, to base economic calculation on the recalculation of balance sheets and of profit-and-loss calculation in gold money.

All fell into ecstasy. Whoever took in more money than earlier — and that was true of most entrepreneurs and wage earners and, finally, with the further progress of the depreciation of money, of all persons except capitalists receiving fixed incomes — was happy about his apparent profits. While the entire economy was consuming its capital and while even stocks of goods ready for consumption held in individual households were dwindling, all were happy about prosperity. And to cap it all, economists began to undertake profound investigations into its causes.

Rational economy first became possible when mankind became accustomed to the use of money, for economic calculation cannot dispense with reducing all values to one common denominator. In all great wars monetary calculation was disrupted by inflation. Earlier it was the debasement of coin; today it is paper-money inflation. The economic behavior of the belligerents was thereby led astray; the true consequences of the war were removed from their view. One can say without exaggeration that inflation is an indispensable intellectual means of militarism. Without it, the repercussions of war on welfare would become obvious much more quickly and penetratingly; war-weariness would set in much earlier.

Today is too soon to survey the entire extent of the material damage that the war has brought to the German people. Such an attempt is bound in advance to start from the conditions of the economy before the war. Even for that reason alone it must remain incomplete. For the dynamic effects of the World War on the economic life of the world cannot thus be considered at all, since we lack all possibility of surveying the entire magnitude of the loss that the disorganization of the liberal economic order, the so-called capitalistic system of national economy, entails. Nowhere do opinions diverge so much as on this point. While some express the view that the destruction of the capitalistic apparatus of production opens the way for an undreamed-of development of civilization, others fear from it a relapse into barbarism.

But even if we disregard all that, we should, in judging the economic consequences of the World War for the German people, in no way limit ourselves to taking account only of war damages and war losses that have already actually appeared. These losses of wealth, which in and for themselves are immense, are outweighed by disadvantages of a dynamic nature. The German people will remain economically confined to their inadequate territory of settlement in Europe. Millions of Germans who

previously earned their bread abroad are being compulsorily repatriated. Moreover, the German people have lost their considerable capital investment abroad. Beyond that, the basis of the German economy, the processing of foreign raw materials for foreign consumption, has been shattered. The German people are thereby being made into a poor people for a long time.

The position of the German-Austrians is turning out still more unfavorable in general than the position of the German people. The war costs of the Habsburg Empire have been borne almost completely by the German-Austrians. The Austrian half of the Empire has contributed in a far greater degree than the Hungarian half of the Empire to the outlays of the Monarchy. The contributions that were incumbent on the Austrian half of the Empire were made, furthermore, almost exclusively by the Germans. The Austrian tax system laid the direct taxes almost exclusively on the industrial and commercial entrepreneurs and left agriculture almost free. This mode of taxation in reality meant nothing other than the overburdening of the Germans with taxes and the exemption of the non-Germans. Still more to be considered is that the war loans were subscribed to almost entirely by the German population of Austria and that now, after the dissolution of the state, the non-Germans are refusing any contribution toward interest payments and amortization of the war loans. Moreover, the large German holding of money claims on the non-Germans has been greatly reduced by the depreciation of money. The very considerable ownership by German-Austrians of industrial and trade enterprises and also of agricultural properties in non-German territories, however, is being expropriated partly by nationalization and socialization measures, partly by the provisions of the peace treaty.

5 Covering the State's War Costs

There were three ways available to cover the costs that the State Treasury incurred in the war.

The first way was confiscating the material goods needed for waging war and drafting the personal services needed for waging war without compensation or for inadequate compensation. This method seemed the simplest, and the most consistent representatives of militarism and socialism resolutely advocated employing it. It was used extensively in

drafting persons into actually waging war. The universal military-service obligation was newly introduced in many states during the war and in others was substantially extended. That the soldier received only a trifling compensation for his services in relation to the wages of free labor, while the worker in the munitions industry was highly paid and while the possessors of expropriated or confiscated material means of war received an at least partially corresponding compensation, has rightly been called a striking fact. The explanation for this anomaly may be found in the fact that only a few people enlist today even for the highest wages and that in any case prospects of putting together any army of millions on the basis of enlistments would not be very good. In relation to the immense sacrifices that the state demands of the individual through the blood tax, it seems rather incidental whether it compensates the soldier more or less abundantly for the loss of time that he suffers from his military-service obligation. In the industrial society there is no appropriate compensation for war services. In such a society they have no price at all; they can be demanded only compulsorily, and then it is surely of slight significance whether they are paid for more generously or at the laughably low rates at which a man was compensated in Germany. In Austria the soldier at the front received a wage of 16 heller and a field supplement of 20 heller, 36 heller a day in all![17] That reserve officers, even in the continental states, and that the English and American troops received a higher compensation is explained by the fact that a peacetime wage rate had been established for officer service in the continental states and for all military service in England and America which had to be taken as a point of departure in the war. But however high or however low the compensation of the warrior may be, it is never to be regarded as a full compensation for the compulsorily recruited man. The sacrifice that is demanded of the soldier serving by compulsion can be compensated only with intangible values, never with material ones.[18]

In other respects the uncompensated expropriation of war material was scarcely considered. By its very nature alone it could occur only

17. And, moreover, the troops that had to fight through the fearful battles in the Carpathians and in the swamps of the Sarmatian plain, in the high mountains of the Alps, and in the Karst were poorly supported and inadequately clothed and armed! [In 1914, the Austrian monetary unit mentioned here, the heller, was a small coin then worth about 1/20th of one U.S. cent (*A Satchel Guide to Europe*. Boston: Houghton Mifflin, 1914, 191).]

18. From the political point of view it was a grave mistake to follow completely different principles in the compensation of the officer and the enlisted man and to pay the soldier at the front worse than the worker behind the lines. That contributed much to demoralizing the army!

with regard to goods on hand in individual economic units in sufficient quantity at the beginning of the war, but not also where producing new goods was concerned.

The second way available to the state for acquiring resources was introducing new taxes and raising already existing taxes. This method too was used everywhere as much as possible during the war. The demand was made from many sides that the state should try, even during the war, to cover the total war costs by taxes; in that connection reference was made to England, which was said to have followed this policy in earlier wars. It is true that England covered the costs of smaller wars that were only insignificant in relation to its national wealth in greatest part by taxes during the war itself. In the great wars that England waged, however, this was not true, neither in the Napoleonic Wars nor in the World War. If one had wanted immediately to raise such immense sums as this war required entirely by taxation without incurring debt, then, in assessing and collecting taxes, one would have had to put aside regard for justice and uniformity in the distribution of tax burdens and take from where it was possible to take at the moment. One would have had to take everything from the owners of movable capital (not only from large owners but also from small ones, e.g., savings-bank depositors) and on the other hand leave the owners of real property more or less free.

If, however, the high war taxes were assessed uniformly (for they would have had to be very high if they were fully to cover each year the war costs incurred in the same year), then those who had no cash for paying taxes would have had to acquire the means for paying by going into debt. Landowners and owners of industrial enterprises would then have been compelled to incur debt or even to sell part of their possessions. In the first case, therefore, not the state itself but rather many private parties would have had to incur debts and thereby obligate themselves to interest payments to the owners of capital. However, private credit is in general dearer than public credit. Those land and house owners would therefore have had to pay more interest on their private debts than they had to pay indirectly in interest on the state debt. If, however, they had found themselves forced to sell a smaller or larger part of their property in order to pay taxes, then this sudden offer of a large part of real property for sale would have severely depressed prices, so that the earlier owners would have suffered a loss; and the capitalists who at this moment had had cash at their disposal would have gained

a profit by buying cheaply. That the state did not fully cover the costs of the war by taxes but rather in largest part by incurring state debt, whose interest was paid from the proceeds of taxes, therefore does not signify, as is often assumed, a favoring of the capitalists.[19]

One now and then hears the interpretation expressed that financing war by state loans signifies shifting the war costs from the present onto following generations. Many add that this shifting is also just, since, after all, the war was being waged not only in the interest of the present generation but also in the interest of our children and grandchildren. This interpretation is completely wrong. War can be waged only with present goods. One can fight only with weapons that are already on hand; one can take everything needed for war only from wealth already on hand. From the economic point of view, the present generation wages war, and it must also bear all material costs of war. Future generations are also affected only insofar as they are our heirs and we leave less to them than we would have been able to leave without the war's intervening. Whether the state now finances the war by debts or otherwise can change nothing about this fact. That the greatest part of the war costs was financed by state loans in no way signifies a shifting of war burdens onto the future but only a particular principle of distributing the war costs. If, for example, the state had to take half of his wealth from each citizen to be able to pay for the war financially, then it is fundamentally a matter of indifference whether it does so in such a way that it imposes a *one-time* tax on him of half of his wealth or takes from him every year as a tax the amount that corresponds to interest payments on half of his wealth. It is fundamentally a matter of indifference to the citizen whether he has to pay 50,000 crowns as tax one time or pay the interest on 50,000 crowns year in, year out. This becomes of greater significance, however, for all those citizens who would not be able to pay the 50,000 crowns without incurring debt, those who would first have to borrow the share of tax falling on them. For they would have to pay more interest on these loans that they take out as private parties than the state, which enjoys the cheapest credit, pays to its creditors. If we set this difference between the dearer private credit and the cheaper state credit at only one percentage point, this means, in our example, a yearly saving of 500 crowns for the taxpayer. If year after year he has to pay his contribution to interest on his share of the state debt,

19. Cf. Dietzel, *Kriegssteuer oder Kriegsanleihe?* (Tübingen: 1912), pp. 13 ff.

he saves 500 crowns in comparison with the amount that he would have had to pay every year as interest on a private loan that would have enabled him to pay the temporary high war taxes.

The more socialist thinking gained strength in the course of the war, the more were people bent on covering the war costs by special taxes on property.

The idea of subjecting additional income and the growth of property obtained during the war to special progressive taxation need not, fundamentally, be socialistic. In and of itself the principle of taxation according to ability to pay is not socialistic. It cannot be denied that those who achieved a higher income in the war than in peacetime or had increased their property were *ceteris paribus* more able to pay than those who did not succeed in increasing their income or their property. Moreover, one can quite rule out the question of how far these nominal increases in wealth and income were to be regarded as real increases in income and wealth and whether it was not a question here merely of nominal increases in amounts expressed in money in consequence of the decline in the value of money. Someone who had an income of 10,000 crowns before the war and increased it during the war to 20,000 crowns doubtless found himself in a more favorable position than someone who had remained with his prewar income of 10,000 crowns. In this disregard of the value of money, which only goes without saying in view of the general tenor of German and Austrian legislation, there did lie, to be sure, a deliberate disadvantaging of movable capital and a deliberate preference for landowners, especially farmers.

The socialistic tendencies of war-profit taxation came to light above all in their motives. War-profit taxes are supported by the view that all entrepreneurial profit represents robbery from the community as a whole and that by rights it should be entirely taken away. This tendency comes to light in the scale of the rates, which more and more approach complete confiscation of the entire increase in property or income and doubtless finally will reach even this goal set for them. For one should indeed suffer no illusion about the fact that the unfavorable opinion of entrepreneurial income manifested in these war taxes is not attributable to wartime conditions alone and that the line of argument used for the war taxes—that in this time of national distress every increase in wealth and every increase in income is indeed unethical—can also be maintained in the period after the war with the same justification, even if with differences in detail.

Socialistic tendencies are also quite clear in the idea of a one-time capital levy. The popularity that the slogan about a one-time capital levy enjoys, a popularity so great that it makes any serious discussion of its appropriateness quite impossible, can be explained only by the entire population's aversion to private property. Socialists and liberals will answer quite differently the question whether a one-time property tax is preferable to an adjustable one. One can refer to the fact that the adjustable, yearly recurring property tax offers the advantage in comparison with the one-time property tax that it does not remove capital goods from the disposal of the individual (quite apart from the fact that it is fairer and more uniform, since it permits errors made in one year's assessment to be corrected the next year and that it is independent of the accident of possession and evaluation of property at a particular moment because it deals with property year in and year out according to the current amount of wealth that it constitutes). When someone operates an enterprise with a capital of his own of 100,000 marks, then it is not at all a matter of indifference to him whether he has to pay an amount of 50,000 marks at one time as a property tax or pay each year only the amount corresponding to the interest that the state has to pay on a debt of 50,000 marks. For it is to be expected that with this capital beyond the amount that the state would have to demand from him for paying interest on the 50,000 marks, he could earn a profit that he could then keep. This is not what is decisive for the liberal's position, however, but rather the social consideration that by the one-time capital levy the state would transfer capital out of the hands of entrepreneurs into the hands of capitalists and lenders. If the entrepreneur is to carry on his business after the capital levy on the same scale as before it, then he must acquire the missing amount by obtaining credit, and as a private party he will have to pay more interest than the state would have had to pay. The consequence of the capital levy will therefore be a greater indebtedness of the enterprising strata of the population to the nonenterprising capitalists, who, as a result of the reduction of the war debt, will have exchanged part of their claims on the state for claims on private parties.

The socialists, of course, go still further. They want to use the capital levy not only for lightening the burden of war debts—many of them want to get rid of war debts in a simple manner by state bankruptcy—but they demand the capital levy in order to give the state shares of ownership in economic enterprises of all kinds, in industrial corporations,

in mining, and in agricultural estates. They campaign for it with the slogan about the state's and society's sharing in the profit of private enterprises,[20] as if the state were not sharing in the profits of all enterprises through tax legislation anyway, so that it does not first need a civil-law title to draw profit from the enterprises. Today the state shares in the profits of enterprises without being obliged to cooperate at all in the management of the production process and without being exposed to harm in any way by possible losses of the enterprise. If, however, the state owns shares in all enterprises, it will also share in losses; moreover, it will even be forced to concern itself with the administration of individual businesses. Just that, however, is what the socialists want.

6 War Socialism and True Socialism

The question whether so-called war socialism is true socialism has been discussed repeatedly and with great passion. Some have answered yes just as firmly as others have answered no. In that connection the striking phenomenon could be observed that as the war continued and as it became even more obvious that it would end with failure of the German cause, the tendency to characterize war socialism as true socialism diminished also.

To be able to handle the problem correctly, one must first of all keep in mind that socialism means the transfer of the means of production out of the private ownership of individuals into the ownership of society. That alone and nothing else is socialism. All the rest is unimportant. It is a matter of complete indifference for deciding our question, for example, who holds power in a socialized community, whether a hereditary emperor, a Caesar, or the democratically organized whole of the people. It does not belong to the essence of a socialized community that it is under the leadership of soviets of workers and soldiers. Other authorities also can implement socialism, perhaps the church or the military state. It is to be noted, furthermore, that an election of the general directorship of the socialist economy in Germany, carried out on the basis of full universality and equality of the right to vote, would have produced a far stronger majority for Hindenburg and Ludendorff

20. Cf. above all Goldscheid, *Staatssozialismus oder Staatskapitalismus*, fifth edition (Vienna: 1917); idem., *Sozialisierung der Wirtschaft oder Staatsbankerott* (Vienna: 1919).

in the first years of the war than Lenin and Trotsky could ever have achieved in Russia.

Also nonessential is how the outputs of the socialized economy are used. It is of no consequence for our problem whether this output primarily serves cultural purposes or the waging of war. In the minds of the German people or at least of its preponderant majority, victory in the war was seen beyond doubt as the most urgent goal of the moment. Whether one approves of that or not is of no consequence.[21]

It is equally of no consequence that war socialism was carried out without formal reorganization of ownership relations. What counts is not the letter of the law but the substantive content of the legal norm.

If we keep all this in mind, then it is not hard to recognize that the measures of war socialism amounted to putting the economy on a socialistic basis. The right of ownership remained formally unimpaired. By the letter of the law the owner still continued to be the owner of the means of production. Yet the power of disposal over the enterprise was taken away from him. It was no longer up to him to determine what should be produced, to acquire raw materials, to recruit workers, and finally to sell the product. The goal of production was prescribed to him, the raw materials were delivered to him at definite prices, the workers were assigned to him and had to be paid by him at rates on whose determination he had no direct influence. The product, furthermore, was taken from him at a definite price, if he was not actually carrying out all the production as a mere manager. This organization was not uniformly and simultaneously implemented in all branches of industry—in many not at all. Also, its net had big enough meshes to let much get through. Such an extreme reform, which completely turns the conditions of production around, just cannot be carried out at one blow. But the goal being aimed at and being approached ever more closely with every new decree was this and

21. Max Adler (*Zwei Jahre . . . ! Weltkriegsbetrachtungen eines Sozialisten* [Nürnberg: 1916], p. 64) disputes the idea that war socialism is true socialism: "Socialism strives for the organization of the national economy for the sufficient and uniform satisfaction of the needs of all; it is the organization of sufficiency, even of superfluity; 'war socialism,' on the other hand, is the *organization of scarcity* and of need." Here the means is confused with the end. In the view of socialist theoreticians, socialism should be the means for achieving the highest productivity of the economy attainable under the given conditions. Whether superfluity or shortage reigns then is not essential. The criterion of socialism is, after all, not that it strives for the general welfare but rather that it strives for welfare by way of production based on the socialization of the means of production. Socialism distinguishes itself from liberalism only in the method that it chooses; the goal that they strive for is common to both. Cf. below, pp. 150 ff.

nothing else. War socialism was by no means complete socialism, but it was full and true socialization without exception if one had kept on the path that had been taken.

Nothing about that is changed by the fact that the proceeds of production went first to the entrepreneur. The measures characterized as war-socialist in the narrow sense did not abolish entrepreneural profit and interest on capital in principle, although the fixing of prices by the authorities took many steps in this direction. But precisely all the economic-policy decrees of the war period do belong to the full picture of war socialism; it would be mistaken to keep only particular measures in view and disregard others. Whatever the economic dictatorship of the various agencies of the war economy left free was gotten at by tax policy. War tax policy established the principle that all additional profit achieved beyond the profits of the prewar period was to be taxed away. From the beginning this was the goal that the policy aimed at and that it came closer to with each later decree. No doubt it would have completely reached this goal also if only it had had a little more time. It was carried out without regard to the change in the value of money that had occurred in the meanwhile, so that this meant a limitation of entrepreneural profit not just to the amount obtained before the war but to a fraction of this amount. While entrepreneurial profit was thus limited on the top side, on the other side the entrepreneur was guaranteed no definite profit. As before, he still had to bear losses alone, while keeping no more chance of gain.

Many socialists declared that they were not thinking of an uncompensated expropriation of entrepreneurs, capitalists, and landowners. Many of them had the notion that a socialist community could allow the possessing classes to continue receiving their most recently received incomes, since socialization would bring such a great rise in productivity that it would be easy to pay this compensation. Under that kind of transition to socialism, entrepreneurs would have been compensated with larger amounts than under the one introduced by war socialism. They would have continued to receive as guaranteed income the profits that they had last received. It is incidental whether these incomes of the possessing classes would have had to continue only for a definite time or forever. War socialism also did not settle the question finally for all time. The development of wealth, income, and inheritance taxes would have been able, especially through extension of the progressivity of the tax rates, to achieve a complete confiscation soon.

The continued receipt of interest remained temporarily permitted to the owners of loan capital. Since they were suffering persistent losses of property and income from inflation, they offered no propitious object for greater intervention by the tax office. With regard to them, inflation was already performing the task of confiscation.

Public opinion in Germany and Austria, entirely dominated by the socialistic spirit, complained again and again that the taxation of war profits had been delayed too long and that even later it had not been applied with appropriate severity. One supposedly should have acted at once to collect all war profits, that is to say, all increases in wealth and income obtained during the war. Even on the first day of the war, therefore, complete socialization should have been introduced—leaving alone property incomes received before the war. It has already been explained why this was not done and what consequences for the conversion of industry onto a war footing would have resulted if this advice had been followed.

The more fully war socialism was developed, the more palpable did individual consequences of a socialistic order of society already become. In technical respects enterprises did operate no more irrationally than before, since the entrepreneurs, who remained at the head of the enterprises and formally filled their old positions, still harbored the hope of being able to keep for themselves—even if only by illegal means—a larger or smaller part of the surpluses earned and at least hoped for future removal of all measures of war socialism, which, after all, were still always officially declared exceptional wartime orders. Yet a tendency toward increasing expenses became noticeable, especially in trade, because of the price policy of the authorities and the practice of the courts in handling the provisions of penal law regarding exceeding the maximum prices: permitted prices were ascertained on the basis of the entrepreneur's outlays plus a margin of "simple profit," so that the entrepreneur's profit became all the greater the more dearly he had made purchases and the more expenses he had incurred.

Of greatest significance was impairment of the initiative of entrepreneurs. Since they shared more heavily in losses than in profits, the incentive to undertake risky ventures was only slight. Many production possibilities remained unused in the second half of the war because entrepreneurs shied away from the risk bound up with new investments and with introducing new production methods. Thus the policy of the state's taking over responsibility for possible losses, adopted especially

in Austria right at the beginning of the war, was better suited for stimulating production. Toward the end of the war, views on this point had changed. With regard to importing particular raw materials into Austria from abroad, the question arose of who should bear the "peace risk," the danger of a loss from the price crash that was expected in the event of peace. The entrepreneurs associated with the Central Powers, whose chances of profit were limited, wanted to undertake the business only if the state were ready to bear the possible loss. Since this could not be arranged, the importation did not take place.

War socialism was only the continuation at an accelerated tempo of the state-socialist policy that had already been introduced long before the war. From the beginning the intention prevailed in all socialist groups of dropping none of the measures adopted during the war after the war but rather of advancing on the way toward the completion of socialism. If one heard differently in public, and if government offices, above all, always spoke only of exceptional provisions for the duration of the war, this had only the purpose of dissipating possible doubts about the rapid tempo of socialization and about individual measures and of stifling opposition to them. The slogan had already been found, however, under which further socializing measures should sail; it was called *transitional economy*.

The militarism of General Staff officers fell apart; other powers took the transitional economy in hand.

Socialism and Imperialism

1 Socialism and Its Opponents

The authoritarian-militaristic spirit of the Prussian authoritarian state finds its counterpart and completion in the ideas of German Social Democracy and of German socialism in general. To hasty observation the authoritarian state and Social Democracy appear as irreconcilable opposites between which there is no mediation. It is true that they confronted each other for more than fifty years in blunt hostility. Their relation was not that of political opposition, as occurs between different parties in other nations also; it was complete estrangement and mortal enmity. Between Junkers and bureaucrats on the one hand and Social Democrats on the other hand, even every personal, purely human contact was ruled out; scarcely ever did one side or the other make an attempt to understand its opponent or have a discussion with him.

The irreconcilable hatred of the monarchy and of the Junker class did not concern, however, the social-economic program of the Social Democratic Party. The program of the German Social Democratic Party contains two elements of different origins tied together only loosely. It includes on the one hand all those political demands that liberalism, especially its left wing, represents and also has partly implemented already in most civilized states. This part of the Social Democratic Party program is built on the great political idea of a republic, which wants to dissolve the princely and authoritarian state and turn the subject into a citizen of the state. That the Social Democratic Party has pursued this goal, that it took the banner of democracy from the enfeebled hands of dying German liberalism and alone held it high in the darkest decades of German politics despite all persecutions—that is its great pride and fame, to which it owes the sympathy that the world accords it and that first brought it many of its best men and the masses of the oppressed and