WHY CIVILIZED NATIONS SHOULD DISARM

(An Economic Preface to the Disarmament Conference)

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IN view of the Conference which is about to meet at Washington by invitation of President Harding, I have been asked to contribute my impression on the subject to *The Dalhousie Review.*

I left London in July, for the purpose of lecturing at the two universities of California on the economic and financial conditions now prevailing in Europe as a result of the war and of the policy pursued since the Armistice. A journalist myself, I felt that I could not refuse the invitation so courteously extended to me by a Canadian editor,—more especially as *The Dalhousie Review* promises to serve as a valuable guide to the leaders of public opinion in Canada. My only regret is that, under the pressure of work, I cannot do justice to the subject, or do more than indicate quite briefly the conclusions to which I have been driven by a close study of the facts.

The only chapter in financial history which in the least resembles the story of the last seven years is that which began with the opening of the French wars in 1793 and ended with the abolition of the Corn Laws in 1846. The French wars lasted until 1815, and a period of economic misery with recurrent famine continued in Great Britain into the late Forties,—the Hungry Forties as they were called—and in Ireland until much later. The economic mischief caused by the war was not fully felt until economic deflation began, about a year after Waterloo.

Great Britain was at that time the leading commercial and manufacturing nation. When the war was over, it was thought that there would be a great demand for British goods, and in anticipation thereof a boom took place. Credit was strained, and large importations of raw material were made. These hopes were disappointed. True, the world needed fresh stocks of clothing and all kinds of manufactured goods, but the world was impoverished and unable to pay for what it wanted. A glut followed, prices tumbled down, thousands of manufacturers were ruined, and many banks had to close their doors. Our misfortunes were aggravated by the inconvertible paper currency begun in 1797, when the Bank of England suspended specie payments. The criticism applied by Sir Henry Parnell in 1827 to the policy of Pitt, who was responsible for the suspension of specie payments, is so apt and so relevant to the present time that I shall venture to place it before readers of *The Dalhousie Review*[1]:—

"Had Mr. Pitt duly considered the undeviating tendency of paper money, when not convertible into gold, to become excessive in quantity, and to produce by the consequent depreciation of its value a proportional depreciation in the value of every description of property, he would have paused before he had recourse to it. For no calamity that could befall the country from the vicissitudes of war—short of the actual conquest of it—could be more calculated to expose it to immediate embarrassment, and ultimate ruin and bankruptcy, than letting the banks loose upon the public to issue whatever quantity of paper they pleased. But it would appear that Mr. Pitt, having once introduced a paper standard as a substitute for a metallic one, and having experienced for a few months the accommodation which it afforded for carrying on the war, sacrificed to this object all other considerations. It may now, however, be affirmed, on the evidence of facts, that by thus establishing an inconvertible paper money he took away from under the great financial, commercial, and agricultural interests of the country the basis on which their stability rested, and exposed them to those violent fluctuations, and to those enormous losses, which have taken place in the last thirty years."—1797-1827.

The troubles of Great Britain, the British Empire, the continent of Europe, the United States, and indeed of almost every country in the world, may be traced to the enormous destruction caused by the war, to the gigantic accumulations of debt by all the belligerent countries, and finally to the almost universal introduction of inconvertible paper money as a means of providing for a vastly increased public expenditure and for deficits in budgets which neither taxes nor loans are adequate to fill. Such are the principal causes of the general distress and depression of trade now confronting us nearly three years after the Armistice.

The world is as well provided with factories, railways, ships, farms, etc., etc., as it was before the war. It has indeed lost millions of the best and strongest and ablest of its young men, but its economic troubles are due to under-consumption. This under-consumption,

1. Observations on Paper Money, Banking and Over trading by Sir Henry Parnell, Bart., M. P., London, 1827, page 9.

I take it, results from overtaxation aggravated by lack of credit. The banks are everywhere hampered by public deficits and by the discredit into which most Governments have fallen. Many countries of Europe are now so hard up that they cannot borrow at all, either from their own people or from foreigners. Even countries which have suffered comparatively little—like Switzerland, Norway, and Denmark—have had to pay exorbitant rates of interest for small loans contracted in the United States. Let me now give by way of illustration a few figures from the report of the Brussels Conference[1].

The debts and deficits recorded at Brussels last autumn have in most cases, I am afraid, been aggravated in the last year. The Governments have been either unable or unwilling to attend to the recommendations of the Conference, and most of the inconvertible paper currencies have suffered a further depreciation. Whatever improvements have been effected in communications and in the interchange of commodities are due to the resumption of commerce by individuals and to the relaxation in some cases of restrictions and impediments imposed by Governments.

I begin with Public Debts.

The total national debt of the United Kingdom rose from 706 million pounds sterling at the beginning of 1914, to 7882 million paper pounds[2] at the beginning of 1920; the Federal debt of Australia from 17 to 350 millions sterling, that of Canada from 286 to 2527 million dollars, that of British India from 4117 to 6164 million rupees, that of South Africa from 126 to 173 million pounds sterling, and that of New Zealand from 90 to 201 million pounds sterling. These prodigious additions to debt fall most heavily, after allowance for population, upon Great Britain. Then comes New Zealand, then Canada and Australia, then South Africa and India.

Turning to the other victorious belligerents, we find that in the same period the French debt rose from 33,637 million gold francs to 219,388 million paper francs—the value or purchasing power of the paper franc being (at mid-summer 1921) less than one third of the pre-war gold franc. The debt of Italy rose from 15,069 million lire to 84,130 million lire, the lira meanwhile having sunk to about one sixth of its pre-war value. The debt of the United

1. I take these figures from Vol. 3 of the Proceedings of the Conference, which contains statements on the financial situation of the countries represented at the Conference. The volumes are published by Harrison & Sons, Limited, St. Martin's Lane, London, W. C. 2.

2. A paper pound is now equal to about three-fifths of a pre-war gold sovereign in purchasing power.

States rose from the trifling figure of 1189 million dollars to 25,833 million dollars.

The debt of Belgium has quadrupled, that of Greece and of Portugal has nearly trebled. The debt of Roumania is about eight times, that of Finland eleven times what it was in 1914. But then, of course, in all these cases the paper currency has been debased, so that the investments of pre-war holders of these debts have been largely confiscated.

Most of the defeated countries are still paying interest on their debts in paper currency so hopelessly depreciated that the payment is little better than repudiation. If we turn from debts to budgets, we find that a year ago the only budgets which balanced, or nearly balanced, were those of the United Kingdom (thanks to sales of war stores), the United States, British India, Argentina, and Peru. The expenditures of France, Germany, Italy, Belgium, Portugal and Bulgaria were from 40 to 69 per cent in excess of their revenues.[1] The expenditures of Australia, Canada, New Zealand and South Africa exceeded their receipts by 63, 60, 58 and 29 per cent respectively.

Thus debts increase by leaps and bounds, paper money deteriorates, confiscation of private property extends, investors lose all faith in government paper and government loans and government promises. There is only one way of averting world wide bankruptcy and a general collapse of credit. That way is a drastic reduction of public expenditure to a level which can be covered by a reasonable or at least tolerable system of taxation. To achieve this there must be a general disarmament, as well as a cessation of wars; for economies in the civil administration, however severe, would be in most cases insufficient.

1. i. e. Their receipts from all sources except loans. In this year's French budget it looks as if the expenditures will be more than double the tax revenue.