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978-1-107-43316-8 - Economic Problems of Peace After War (Second Series)

William Robert Scott

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OF  
PEACE AFTER WAR

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University Printing House, Cambridge CB2 8BS, United Kingdom

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[www.cambridge.org](http://www.cambridge.org)

Information on this title: [www.cambridge.org/9781107433168](http://www.cambridge.org/9781107433168)

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First published 1918

First paperback edition 2014

*A catalogue record for this publication is available from the British Library*

ISBN 978-1-107-43316-8 Paperback

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ECONOMIC PROBLEMS  
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PEACE AFTER WAR  
(SECOND SERIES)

THE W. STANLEY JEVONS LECTURES AT  
UNIVERSITY COLLEGE, LONDON, IN 1918

BY

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Adam Smith Professor of Political Economy in the University of Glasgow  
and Fellow of the British Academy

Cambridge:  
at the University Press  
1918

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Never doth an important truth spread its roots so wide, or clasp  
the soil so stubbornly, as when it has braved the winds of controversy.  
There is a stirring and a far-heard music sent forth from the tree of  
sound knowledge, when its branches are fighting with the storm,  
which passing onward shrills out at once truth's triumph and its own  
defeat.

S. T. COLERIDGE.

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## PREFACE

IN the previous course of lectures an effort was made to indicate some of the chief principles which should guide us in contemplating the economic future. The general conclusion which resulted was that emphasis should be laid upon general rather than on particular tendencies. It is to be feared that much of the planning which has been undertaken during the war has been weakened, and some of it wasted, through an undue concentration upon details and the neglect of wide and comprehensive principles, many of which are psychological, rather than purely economic. It may seem almost a paradox to say that what is most important in facing the future is first to reach the right point of view. Accordingly, all that was possible in the former series of addresses was to seek for the proper attitude of mind towards the problems with which the country will be confronted. It was not possible upon that occasion to do more than to suggest in a tentative manner how the general principles should be applied to special cases.

In the ensuing pages concrete illustrations are afforded of the working of this method. It has been by no means easy to select the particular topics to be treated. Many economic problems arose and were alluded to in the course of the previous discussion. From amongst these it seemed, on the whole, that it would be most advantageous to concentrate attention upon two groups of questions. One of these is concerned with the economic considerations connected with the project of a League of Nations—partly as to its feasibility, partly (assuming it to be possible)

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as to its consequences upon commerce and particularly in relation to communication by land, sea and air. These and other matters of a similar character are discussed in the first two lectures. The remainder deal with problems of finance. There is no field of economic enquiry where the need for investigation is more urgent. Here, in particular, according to the saying of Leibniz, "the present is full of the future." To a large extent what we do now is determining what we must do in the future: while what we abstain from doing now will have no less striking effects. Finance since the beginning of the war and until a number of years after peace has been re-established constitutes a unity, but it is a unity part of which (namely the interval between the present time and the cessation of hostilities) is partly hidden from us. In dealing with the position as a whole an attempt has been made to allow for this inevitable uncertainty. Several aspects of the position have been grouped together for separate treatment—as, for instance, the principles which should govern war finance in relation to the debt for which we shall be liable when the war is ended, next various schemes for the reduction of the war debt are discussed, and after that certain characteristics of what may be termed the period of financial transition, that is the interval from the declaration of peace until the finances can be considered normal again, finally if the imagination be carried forward into the earlier years of peace, certain of the problems which will then be pressing can be anticipated. As regards this part of the work it may be mentioned that the manuscript was in the hands of the printer before the Budget statement was made. Under the circumstances it did not appear that any alterations, beyond the inclusion of some later figures, were called for; since I judged it best to present what had been written in its original form as an independent review of the situation. It may perhaps be of

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interest to state that the calculations, which led to fixing upon the sum of 900 millions as the amount which should be aimed at from taxation and State services in 1918–19, were made in September–October of last year and this result was announced at a lecture given to the Royal Philosophical Society of Glasgow in November. That happens to be the sum which Mr McKenna and the other members of the House of Commons, who have given special attention to financial questions, estimate as the revenue in a complete financial year under the present Budget (*Hansard*, 103, pp. 724, 780).

The expansiveness and the solidity of the British finances have been remarkable. Hitherto any reasonable estimate of future revenue, however optimistic it may have seemed at the date it was made, has fallen short of the reality. At the same time due weight must be given to the present exceptional circumstances. From the financial point of view the situation may be compared to that of a person who has to make extraordinary efforts and is kept going by a powerful tonic. The disbursement of immense sums of borrowed money and the state of the currency as well as the exceptional nature of war time trade may be compared, not inaptly, to the tonic in the illustration. But the question arises what is to happen to the revenue and to the financial system generally when the time comes at which the tonic can no longer be given? An earnest effort has been made to face this problem in the last two lectures; and, given reasonable care and prudent management, the result is far from discouraging. But war time extravagance has become almost the habit of some of the great spending Departments of the Government, and the restoration of reasonable economy will be necessary, indeed the financial position after the war cannot justly be described as normal until this has been accomplished. The country has ample resources for the maximum necessary

expences of its defence against a system which would render its free development in industry impossible, but it has not resources to waste, unless its recovery from the material losses of war is to be unduly and even painfully protracted.

As the great struggle works itself out to the one inevitable end, the nation like Sir Beaumains in the *Morte D'Arthur* must win through "the pass perilous," not once but many times. Finance is an essential element in the contest. Its function is to maintain the fullest efficiency of the fighting forces with the least detriment to the future. The former condition must of necessity be supreme, but at the same time due attention should be paid to the second.

The final result of the financial investigation shows that, if the system be used judiciously, there are no grounds to fear interruption of a vigorous conduct of the war through failure of adequate resources. Still less is there reason to expect that the burden of taxation which the war will leave behind it—heavy as this must be—will prove intolerable. It appears as clear as any thing can be during the uncertainties of a state of war that, given prudence in the use of our financial resources, those who predict either financial exhaustion during the war or financial collapse after it are ill-informed in their despondency. Theirs is that sad failure of vision which may be imagined almost to repeat the words of Timorous and Mistrust "the further we go the more dangers we meet, wherefore we would turn, and go back again."

W. R. S.

*April, 1918.*



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## MARE LIBERUM—AER CLAUSUS?

In previous wars enemies, who felt the effects of British sea power, have advocated "Freedom of the Seas": only a few years after the end of the Napoleonic wars I. Disraeli included an account of the French arguments on this subject amongst his "Literary curiosities": the German conception as developed by Schulze-Gävernitz and Reventlow: the position of Grotius: his anticipation of aerial navigation: Gronovius on the *jus gentium* and free passage through the air: the question of the use of the air over the land by foreign nations: the ideal of making navigation by air as free as that upon the sea before the war: the danger of territorial exclusiveness aiming at a doctrine of *aer clausus*: international regulation of navigation by air: Kipling's A.B.C.: the proposed League of Nations and regulation of aerial traffic: the limitation of the air service, if impeded by territorial exclusiveness: possibilities of political friction in relation to trade routes: the function of the proposed League regarding these: the League and the use of the air for purposes of war: the effect of control of communication by land, sea and air in enforcing peace . . . . . p. i

## A LEAGUE OF NATIONS AND COMMERCIAL POLICY.

The universal wish for a stable and abiding peace, but the question at once arises as to how it is to be guaranteed: the conception of a League of Nations: in several respects the programmes of the proposed League represent the Canadian Industrial Disputes Act of 1907 writ large: the conditions precedent to the formation of a League of Nations (1) the defeat of aggressive militarism, (2) a just peace, (3) industrial peace after the war: assuming these conditions are satisfied, it remains to inquire what may be inferred concerning the consequences of the establishment of such a League upon commercial policy: the power of control of trade as it may be exercised by the League: the least sufficing State will be most subject to economic pressure by the League: variations in the economic contribution by different States to the economic power of the proposed League: if it were established, at first it would encourage economic self-sufficingness: the consequences as regards Great Britain and the British Empire: if a League were founded, it is probable that members of it would be compelled to refrain from discriminating against the trade of other signatory States: this would tend towards checking the rise in tariffs of signatory States as regards the goods of other signatory States, while, conversely, duties would be higher against non-signatory Powers: to that extent the latter would be drawn together in commerce and the economic power of the League

would be weakened: if the League succeeded in facilitating the trade of its members, there would be distinct economic advantages in joining it: the difficulties of the economic weapon in the case of powerful States, through smuggling and in the rationing of small countries contiguous to the one against which an economic boycott is to be applied; the centrifugal force within the League, in so far as it restrained the activities of the more progressive countries: Statesmen rather emphasize the economic side of the League: economists expect more from its political activities: the prospects of the future, without a League of Nations, can only be described as an unfavourable certainty: with it, perhaps these may be transformed into a favourable uncertainty

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#### THE FINANCIAL BURDEN OF TODAY AND OF TOMORROW.

There are few economic questions upon which opinion has been divided so much and for so long a time as the respective proportions of loans and taxes in meeting the cost of war: there was a British school which urged that all war expenditure should be raised within the year in which it was incurred—the views of Petty, Davenant, Archibald Hutcheson, Hume, Decker, Fauquier, Adam Smith, Ricardo, Chalmers and J. S. Mill: another theory advanced by Berkeley, Sir J. Steuart and J. McArthur: a change in British opinion was shown in the finance of the South African war as well as in the growth of local debt: as distinguished from the view of earlier English writers German economists advocated reliance upon borrowing to meet war expenditure—the views of von Justi, von Jacob, Nebenius, Dietzel, von Stein: the place of indemnities in German financial theory—Cohn, Roscher, Wagner: the relative places of borrowing and taxation, Adams, Leroy-Beaulieu, Pareto and Einaudi: Adam Smith's conception of the amount of war expenditure as a multiple of normal expenditure: theory of the ratio between loans and taxes: (a) taxes sufficient to meet interest on the net war debt at the end of the financial year, (b) to provide a contribution to meet a part of the war cost, (c) the duty of the Chancellor of the Exchequer not to injure future productivity of taxation and trade but to increase taxation up to the verge of this limit: estimate of the amount of taxation in 1918–19 upon these principles .

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#### CONSCRIPTION OR PROSCRIPTION OF CAPITAL.

The future liability for taxation will depend on the amount of debt: hence schemes to diminish it must be next discussed: proposals for confiscation of a part of the National Debt are very old, *e.g.* A. Hutcheson's 10 per cent. levy, schemes of Asgill, Barbier and Menier: Ricardo's condition before sanctioning a general contribution for reduction of the Debt: in modern schemes all that is new is the analogy to the Military Service Acts, hence the idea of conscription of wealth or capital: the extent to which this analogy holds and how far it is defective: already the State has demanded the use of many hundreds of millions of wealth, but the element of risk is not the same as in the case of personal service: the logical development of the conception of conscription both of service

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and wealth, the whole population deemed to be minors for the period of the war: the impracticability of this idea: partial approximations to it —(a) a possible tax upon all persons not serving in the forces, (b) a tax upon deficient subscriptions to War Loans, (c) suggested lower rates of interest for domestic loans: the idea of conscription of the more durable kinds of wealth: the relatively small amount that would be obtainable: the Capital Levy of the Fabian Society: the convertibility of taxes on capital and on income: this scheme a differential income tax upon wealth used productively: the paradoxes which would result —a bonus upon unpatriotic expenditure, “the paraphernalia of the house,” “immaterial capital,” the check to accumulation, objections to large debt redemption in the early years of peace: the need to prevent taxation assuming the appearance of a proscription of Capital p. 65

## THE PERIOD OF FINANCIAL TRANSITION.

Between the cessation of war and a normal financial régime a considerable period must elapse: demobilisation of the forces: demobilisation of the war-expansion of the Civil Service: until both demobilisations are complete, there will be a continuance of outlay of the nature of war expenditure: the position regarding the revenues during this period: Excess Profits duty as a war tax: the possibility of a modified tax on profits during the financial transition—reasons for and against it: its relation to a possible tariff: prospects of Income Tax during this period, the effect of the three years average, if continued: the restoration of the damage of war: danger of a post-war crisis: the effect of the state of trade and the general level of prices: variations in income tax assessments 1842–1913: effect of the state of the currency on general prices: the position of shipping in relation to raw material and foreign trade: examination of the possibility of a protracted depression following the war: the position of indirect taxation: the duration of the financial transition estimated at between two and three years: in that period it is hoped the foundations of the future tax system will be established and that the extravagance of public expenditure will be reformed: review of the liabilities of the transition and the resources to meet them: expenditure will comprise outlay on the forces till demobilised, the expenses of demobilisation, the beginning of reconstruction, service of the National Debt and the remaining expenditure: the last two should be fully met by the taxation then in force: to discharge the other liabilities there will be a large balance of uncollected excess profits duty and the sums realised by the sale of supplies, machinery and other property accumulated during the war: if hostilities are long continued the sale of government property would more than suffice to meet these expenses: the balance, if any, might be reserved against the principal of any loans to Allies who are temporarily in difficulties or where there is doubt, if they can or will pay interest: if any surplus remained, eventually, it should be used to extinguish debt: this method of calculation partially stabilises the amount of the net debt during the transition: interest and sinking fund in respect to the net debt would be met by this country from taxation: the position would be more

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were accepted . . . . . p. 87

## TEN YEARS AFTER.

In several respects, provided that no considerable reduction of taxation (except special war taxes such as Excess Profits duty) is made the finance of the transitional period may be easier than that of the first years which follow it: by the end of the transition the new tax system should be ready: the remodelling of income tax—even graduation, progression, extension upwards (upon large incomes) and possibly downwards on small incomes: the position of the limit of exemption: its relation to prices at the time: the circumstances of the taxpayer: theory of abatements for marriage and children: the conflict between average abatements and specialised abatements: the non-recognition of savings: practical difficulties in exempting savings: the taxation of expenditure, suggested graduated house duty: Estate Duty closely related to the above taxes: the effect of the expected lower value of securities: indirect taxes: proportionate taxes upon expenditure which has for its object display: the luxury taxes of the French Budget of 1918: stamps, fees and State-services: circumstances which may affect the produce of a given rate of taxation: should there be a period of activity after the war, the danger of a crisis or subsequent depression: the position of the net debt: the first Consolidating Loan: prospects of a reduction of interest as a result of conversions 1922–1927: the limitation of debt by increase in the ratio of the revenue from taxation if the war is comparatively protracted: the borrowing power of the country during the Napoleonic Wars: tentative estimate of its present borrowing power: cautious to be observed in making this comparison: the high level of future taxation: the need for improved and extended Production in order to meet it: the problem of the just distribution of the burden . . . . . p. 109

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