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A COMPARISON OF INTERNAL TAXATION
AND BORROWING IN GREAT BRITAIN AND GERMANY IN
THE FIRST WORLD WAR

by

DALE JOHNSON

B.S. Montana State University, 1957

Presented in partial fulfillment of the requirements for the degree of

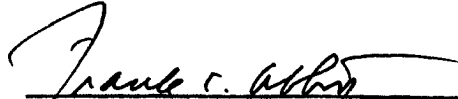
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CHAPTER I

INTRODUCTION

During the summer of 1914 the governments and the peoples of Europe found themselves faced with a crisis, the threat and the outbreak of a large scale war. The demands, needs, and the length of this war had not been anticipated by the belligerent nations. The governments and the peoples of these nations were, in the early phases of the war, unaware of the importance of these factors. Both the Central and the Allied Powers were certain that if a war were to break out, it would last only a few weeks, or a few months at most. The belligerent powers were likewise unaware that this war would involve their entire populations and their entire material output in a life and death struggle. The peoples of the fighting nations were of the opinion that this war would be fought by military forces alone, a factor which was typical of earlier wars, including the Franco-Prussian and the long and devastating Napoleonic wars.¹

Even as the people were unprepared in their mental attitude for a total war of such duration and magnitude, so were their governments and financial institutions unprepared in their financial policies. The existent policies soon proved inadequate and incomplete for coping

¹Albrecht Mendelssohn Bartholdy, The War and German Society (New Haven, 1937), pp. 212-15.

with the situation. The means of governmental finance, or the methods of obtaining funds for the continuous procurement of men and materials for the war effort, proved inadequate in producing the desired economic and political effect. While it is true that a great war is a matter of social organization, production, and distribution, war finance is an important part of the war economy because of its political and economic relationship to these factors. A comparison of the financial policies and provisions as developed and utilized by Germany and Great Britain during the First World War period is the subject of this study -- their mobilization and use of financial resources for the procurement of materials and services, their use of financial measures for the limitation and control of consumption, their direction of new investment, and their efforts toward the prevention or restriction of inflationary tendencies

Even before the actual outbreak of war, the belligerents encountered their first financial problem. This problem developed in the area of foreign investment and finance. The foreign investments of most of the European nations and of their nationals had grown by 1914 to such an extent that any threat of war would cause public anxiety as to the safety of these investments. During July of 1914, as the diplomatic crisis deepened, a crisis developed among the financial capitals of the world. This crisis, precipitated by fears for the safety of investments, was enlarged by the economic interdependence of the nations involved in the war crisis. The pre-1914 economic interdependence of Great Britain, her colonies, and the other nations of the world is perhaps better known than is the economic interdependence of Germany. Statistics show, however, that there was considerable economic interdependence between Germany and her neighbors. Germany was the best

customer of Russia, Norway, the Netherlands, Belgium, Switzerland, Italy, and Austria-Hungary, and the second best customer of Great Britain, Sweden, and Denmark. She was the largest source of supply of Russia, Norway, Sweden, Denmark, the Netherlands, Switzerland, Italy, Austria-Hungary, Roumania, and Bulgaria, and the second largest source of supply of Great Britain, Belgium, and France.² It is stated by Keynes that around "Germany as a central support the rest of the European economic system grouped itself, and on the prosperity and enterprise of Germany the prosperity of the rest of the Continent mainly depended."³ The financial and economic disruption of this system, caused by the threat and outbreak of war had to be met and overcome as one of the first actions in stabilizing the internal economy in order that a system of war finance could be put into effect.

Following the enactment of provisions for combating the initial financial crisis,⁴ Germany and Great Britain turned to the problems involved in the actual financing of the war activities. Both countries followed what they considered to be their best interests when raising the funds for the procurement of the men and the materials necessary for the accomplishment of a speedy and successful termination of hostilities. While Germany resorted almost entirely to internal borrowing for the financing of her war expenditures, Great Britain utilized a combination of taxation and borrowing for her war expenditure

²John Maynard Keynes, The Economic Consequences of the Peace (New York, 1920), pp. 14-15.

³Ibid., p. 14.

⁴These provisions are detailed and discussed in Chapter II.

financing. A comparison of the percentage of total German and British expenditures in the war period as covered by taxation and by borrowing shows the extent to which each method was utilized by these two countries.⁵

	<u>Taxation & Other</u>	<u>Borrowing</u>
Germany	13.1%	86.9%
Great Britain	28.4%	71.6%

That the approaches of these two governments in the fulfillment of their financial requirements differed is attributable to (1) their difference in viewpoint regarding indemnity payments, (2) their difference in political structure, (3) their difference of experience in the financing of previous wars, and (4) the difference in the governmental financial structures.

Germany's primary viewpoint was that after victory over her opponents she would be able to demand large indemnity payments from which she would be reimbursed for her entire war related monetary expenditures, and that she would also receive sizeable land annexations. The military and many of the industrialists, the two factions possessing considerable influence within the government, were swayed towards war by the desire for annexation, and by the knowledge that through indemnity settlements, the war would place no permanent financial burden upon the country. Annexationist war aims "were espoused by the pan-Germans, by the associations of industrialists,... and in the Reichstag by all the

⁵For the figures used in computing these percentages, see Chapter IV, pp. 47 and 48.

political parties except the Socialists."⁶ Even the anti-annexationists were in favor of some changes in boundaries or in the taking of some areas as hostage so that Germany could feel secure.⁷ On this subject Chancellor Bethmann-Hollweg wrote in September of 1916 in a prepared statement to Herbert B. Swope, correspondent for the New York World:

It never was a part of the plan of the war to add to Germany's territory through conquest, but it is possible that peace may necessitate a change of present boundaries of contiguous countries where such changes are in the nature of a safeguard to Germany's security, which in turn means a strengthening of the prospects of general and lasting peace.⁸

The industrialists and the militarists also believed that a peace without victory was impossible financially, for it would leave the country overwhelmed with debt, and was impossible economically, for it would arrest the expansion of German industry.⁹

Great Britain, on the other hand, entered the war with no definite expectation for either indemnities or annexations. This difference in attitude can perhaps be attributed to the predominant feeling among the population of Great Britain that this was a defensive war. British industrialists and the British military were not in search of European annexations, nor did they possess quite the influence within the British government that their counterparts did

⁶Koppel S. Pinson, Modern Germany (New York, 1954), p. 324.

⁷Herbert Bayard Swope, Inside the German Empire (New York, 1917), p. 5.

⁸Ibid., p. 21.

⁹Alan J. P. Taylor, The Course of German History (New York, 1946), p. 167.

within the German Government.

Germany's semi-autocratic form of government, as distinguished from Great Britain's relatively democratic form of government, accounts in part for the political difference in approach. Whereas in a democracy the government is, in the last analysis, controlled by the will of the people, that is the wishes of a majority of the governed, an autocracy is controlled by the will of the ruler, or ruling class. A democracy bases its institutions on voluntary cooperation under the majority principle while an autocracy bases its institutions on servitude. Even though Germany was not an absolute autocracy, the system of governmental control by the ruling class was present as is evidenced by the provisions of the Constitution of the German Empire. The Bundesrat which was the stronger of the two legislative houses was effectively influenced by Prussia, in effect an autocracy, through 17 of the 58 votes. This influence was possible in that the Bundesrat possessed the power of decision over the proposals and decisions of the Reichstag. The Constitution, in addition, provided that no constitutional amendments could be made if there were 14 votes against them in the Bundesrat. The Empire was presided over by an Emperor who was also King of Prussia, and a Chancellor, also Chancellor of Prussia, who was responsible only to the Emperor.¹⁰ It can thus be assumed that as King of Prussia the Emperor could control the 17 Prussian votes in the Bundesrat. The advantages of such a form of government were noted by

¹⁰Louis L. Snyder, ed., Fifty Major Documents of the Nineteenth Century (Princeton, 1958), pp. 143-45.

von Kuhlman, Secretary of State, in a dispatch to the Imperial Chancellor from Brest-Litovsk on January 10, 1918.

One of the most fortunate effects of the monarchical system as it exists with us is the combination of the highest civil and military authority in the person of the monarch, who is thereby placed in a position to decide definitely and conclusively the final questions determining the public welfare in which, as often happens, political and military matters are closely connected. If these absolutely fundamental principles are departed from to a considerable extent, the entire fabric of the State is seriously endangered.¹¹

After 1916, the Emperor became ruler in name only and the actual civilian leadership, as well as the military leadership, passed to the military, chiefly General Ludendorff and the Commander-in-Chief von Hindenburg.¹² Thus the military became the supreme power in both civilian and military affairs. Since the military leaders were mostly aristocrats and had an interest in civilian affairs only in so far as they affected the aristocracy and the military, there was little change in the prevailing financing program.

Because of Great Britain's more democratic form of government in which the opinions and desires of the lower classes, as well as the middle classes, could and did receive more immediate governmental attention, the British government found it much harder to enforce an unpopular law or policy than the German government. This is effectively evidenced in a comparison of the British governmental action in the British coal strike of 1915 in the South Wales coal

¹¹Ralph Haswell Lutz, ed., The Causes of the German Collapse in 1918 (Stanford Univ., 1934), p. 34.

¹²Edmond Taylor, The Fall of the Dynasties (Garden City, 1963), p. 239.

fields and the German governmental action in the German strike of 1918, a strike centered in Berlin. Great Britain proclaimed the 1915 strike unlawful in accordance with the provisions of the Munitions Act. Theoretically all of the strikers were liable to imprisonment, but politically penalties against a fifth of a million men could not be readily enforced in Great Britain and therefore the government assisted negotiations which brought about a settlement granting most of the demands of the miners.¹³ In Germany, on the other hand, the strike of January 1918 which involved more than half a million workers, chiefly in Berlin, was settled in another manner. A state of seige was proclaimed, the labor press was forbidden, strike meetings were dissolved by police, and thousands of workmen who were members of the Army Reserve were called to their regiments. Seven of the great industrial concerns were placed under military control, and the strikers were ordered to resume work or suffer punishment as prescribed by martial law. Although, due to the serious effect of this strike on the country, Ludendorff was prompted to write the Minister of War that future industrial disputes should be settled "in general without the employment of force," he did not rule out the use of force in future disputes.¹⁴ This difference in the action of the two governments in similar incidents illustrates a fundamental difference in the

¹³Keith Hutchison, The Decline and Fall of British Capitalism (New York, 1950), p. 138.

¹⁴John W. Wheeler-Bennett, Wooden Titan: Hindenburg in Twenty Years of German History 1914-1934. (New York, 1936), pp. 41-42.

governmental outlook toward the public, and in the public reaction to measures taken by the government. The effectiveness of the British government depended upon the support of a majority of the public. Britain was ruled by a government of consent. Germany, on the other hand, did not have to depend upon the support of the public for every action that was taken. It is true that the central government of Germany had to have public support for its continued existence, but a governmental crisis could not be as easily created in Germany as it could be in Great Britain if the government were to attempt to force a solution to a controversial problem.

Experience in financial mobilization and war finance also becomes apparent as one of the most important factors influencing how these two countries approached these problems of financial mobilization and the actual war finance itself. Germany had no previous experience in coping with the initial crisis or with the financing involved in an extended major war. Although she did have a plan for financial mobilization for the early war period, her financial structure fared no better under the threat of war than did that of Great Britain. Nor did Germany's financial policies during the war envision any change in the financing of her war expenditures other than through borrowing, to be covered by heavy indemnities levied upon the defeated at the conclusion of the war.¹⁵

¹⁵Lutz, ed., The Causes of the German Collapse in 1918, p. 189.

A less important factor influencing the methods used to finance the war in Germany and Great Britain is indicated by the difference in the means employed by the two governments to finance their peacetime expenditures. Germany had a federal form of government with a tradition of tax assessment and administration centered around the individual states. The Imperial government received funds almost entirely from indirect taxes, the remainder coming from state contributions and the income of the postal, telegraph, and railroad operations.¹⁶ The one exception to this indirect taxation was the unprecedented 1913 Parliamentary approval of a nonrecurring direct Imperial tax on real property and some incomes. This tax was levied in order to provide the funds for a contribution to the military.¹⁷ In Great Britain, on the other hand, the government had no restrictions of this nature in regard to a system of centralized taxation. In fact, extensive taxation by the central government of Great Britain, even to include the income tax which had been imposed at various times since the beginning of the Napoleonic era and had become acknowledged as permanent in 1907, was a recognized means of governmental finance.¹⁸

¹⁶Gustav Stolper, German Economy 1870-1940, Issues and Trends (New York, 1940), pp. 29-31.

¹⁷Prof. Dr. Josef Wirth, "Denkschrift Uber die finanzielle Lage des Reichs," Verhandlungen des Reichstags, I, Wahlperiode 1920, Anlage No. 254, Bd. 363, p. 2.

¹⁸Samuel J. Hurwitz, State Intervention in Great Britain (New York, 1949), p. 8.

The structure of German finance could have been changed at any time if the ruling class had so desired, for this class certainly appears to have possessed the political power necessary. It refused to recognize that the war could end in any other way than a complete victory and was well enough entrenched during the war period to defeat the proposals for a highly progressive tax on large incomes and for the imposition of higher death duties, taxes which would have carried public support, but which would have operated to the financial disadvantage of those with wealth.¹⁹

While taxation and borrowing are usually utilized in relation to their political advantages, they possess economic advantages and disadvantages which are important in viewing the policies and methods used in the providing of funds for the carrying out of a war. The funds needed can be provided domestically from one or two sources: (1) money taken out of current incomes through taxation or through non-inflationary borrowing, and (2) money created by the banks or government. Money taken out of current income may take the form of taxes levied on individuals or on businesses, as income, profit, sales, excise or customs taxes, or it may take the form of a compulsory investment of funds already available in government bonds or obligations.²⁰ Thus current income is channelled into funds for governmental

¹⁹Mendelssohn Bartholdy, The War and German Society, p. 272.

²⁰For further discussion of non-inflationary borrowing, see Horst Mendershausen, The Economics of War (New York, 1943) pp. 239-244, and Emanuel Stein and Jules Backman, editors, War Economics (New York, 1942), pp. 113-119.

spending without producing an inflationary situation. However, new money may be created through governmental borrowing from banks, selling promisory obligations for cash balances, or through governmental circulation of new currency. This second method results in rapid expansionary borrowing or inflation and when a government finds that it must resort almost entirely to this means for providing funds it usually signifies the breakdown of the normal means of finance. This method of finance is, in effect, a system of forced loans because it reduces the buying power of money in circulation, and when this new money is taken out of circulation, if it ever is, the buying power of money increases.

Perhaps the most important advantage of taxation over borrowing is that it can provide a means for extracting funds on an ability-to-pay basis and thus not operate in favor of the wealthy. A graduated tax can be levied on incomes and thus obtain funds on more of an ability-to-pay basis than a system involving voluntary loans which solicits funds mainly from the wealthy, paying them a fee in the form of interest for the usage of these funds. If, as in the case of Germany, an indemnity settlement is planned at the successful conclusion of hostilities, the wealthy are the ones directly receiving benefit because the war expenses, as financed through loans, are paid out of the settlement and thus a deviation from the pre-war tax structure is unnecessary in the war or post-war period. If no indemnity settlement is planned for the funding of the debt, at the conclusion of the war the poor find themselves paying an inequitable

share unless an ability-to-pay basis is established in the taxation for this debt funding. Thus it appears that a system of borrowing for war finance anticipates either an indemnity settlement or else an inequitable distribution of sacrifices for the war effort according to wealth status.

Another advantage of taxation, or a system of forced savings, is that money is withdrawn from circulation, an advantage not necessarily present in a system of voluntary loans to the government. This withdrawal of funds tends to restrict both inflation and consumption; it limits inflation indirectly by making it unfeasible for a price-wage spiral, and by making it possible for the government to meet more of its financial needs through tax receipts rather than loan receipts. This system can thus reduce the possibility of the government having to resort to a system of uncovered debt or printing press finance. Taxation limits consumption in that it reduces the public buying power, which in turn usually reduces the public demand for a great quantity of luxury items. This reduced demand allows for a diversion of a part of the luxury producing or importing industry to the production or the importation of goods more essential to the war effort. Excise and customs taxes levied on luxury and import items during war time are usually direct attempts to limit the consumption of these items.

Even as taxation has certain advantages over borrowing, borrowing has advantages over taxation. Borrowing allows for an almost immediate availability of funds through the passage of a war credits act. Taxation not only involves a delay in the collection of funds, a

factor which was particularly evident in Great Britain in the First World War, but it also involves a much longer time period in the legislative process due to the desires of certain segments of the public, and the political necessity of satisfying many of these desires. This necessity for satisfying the different segments of the public is present in both an autocracy and a democracy. An autocracy, however, has an advantage over a democracy in that it can often more easily and more successfully mislead the public through the guidance of public opinion or thought in a desired direction.

Another advantage of borrowing over taxation is that borrowing allows the government to obtain funds earned prior to hostilities and held as savings, funds which would otherwise not be available for the war effort in a politically feasible system of taxation. Thus both systems of war finance, taxation and borrowing, have singularly distinctive advantages depending upon the immediate need and the desired result. While Great Britain thought it advantageous to use a combination of the two, Germany preferred to finance war expenditures through borrowing.

Regardless of whether taxation or borrowing is used, a limit will be reached as to the amount the government can take from the poor. This limit is determined by the income which is required to provide a subsistent living and because of this limitation on the revenue obtainable from the poor, a greater part must be raised among the well-to-do. Whether the contribution of the well-to-do should be in the form of loans or in the form of taxes is the question which governments in wartime must decide. Under the tax method, the well-to-do carry the

major part of the burden, while under the loan method they are at least partly compensated for their monetary contribution to the war effort.²¹

In the following chapters the methods and policies of Great Britain and Germany in the field of taxation and borrowing for financing the procurement of materials and services during the First World War will be compared. This comparison is intended to illustrate how the policies of each government differed because of the forenamed factors, and how the policies of each government were modified during the course of the war to meet the changing military, political, and financial situations.

²¹A. C. Pigou, The Economy and Finance of the War (London, 1916), pp. 68-70.

CHAPTER II

FINANCIAL CRISIS AND STABILIZATION

Before discussing the financial problems encountered by Great Britain and Germany upon the threat and outbreak of war, it is important that the pre-war governmental financing systems be understood and compared. As explained previously the source of central government revenue in Germany was limited almost entirely to indirect taxation, while in Great Britain there was no such limitation. The following table gives the percentage of the total 1913 revenue yield by tax source, and the percentage of the total expenditures covered by this tax revenue.

<u>Tax Source</u>	<u>Percentage Revenue Yield</u>	
	<u>Great Britain¹</u>	<u>Germany²</u>
Customs	21.82	40.11
Excise	24.32	39.05
Inheritance (estate)	15.66	2.74
Stamps	6.12	15.03
Land tax, house duty	1.65	-0-
Income tax, including supertax	28.98	-0-
Other	.45	3.07
	<u>100.00</u>	<u>100.00</u>
Percentage of expenditure coverage	100.00	87.39

¹Ernest L. Bogart, Direct and Indirect Costs of the Great World War (New York, 1920), p. 38.

²R. R. Kuczynski, "German Taxation Policy in the World War," Journal of Political Economy, XXXI (1923), p. 766.

This comparison reveals that the German government depended upon customs, excise, and stamp taxes for the major part of its revenue. It also reveals that Great Britain, while receiving considerable amounts from indirect taxes, also received large amounts from direct taxes on inheritance and income. In both budgets the relatively high percentage of revenue derived from the customs tax which was levied on import items indicates the extent of import activity. Also of significance, this comparison reveals that in 1913 neither country relied extensively upon borrowing as a general and ordinary means of governmental finance.³

During the period preceding the outbreak of war, both Great Britain and Germany were engaged in international finance and in foreign and domestic investment for the furtherance of internal development and for the promotion of even more foreign trade. In such a situation, a war scare would initiate a crisis in which investors would attempt to recover their investments, both foreign and domestic, by selling their securities before they became frozen or lost due to the breakdown of the facilities for international finance. Those holding bills of exchange would likewise attempt to recover their investment before a war situation made recovery of this investment impossible.

³Stolper in German Economy 1870-1940, p. 30, gives the Reich debt as of October 1, 1913 as 4,897,000,000 marks, and F. W. Hirst and J. E. Allen in British War Budgets (London, 1926), p. 14, give the British debt as of March 31, 1914, as 651,000,000 pounds sterling.

It is therefore understandable that in July of 1914, even before the Austro-Hungarian ultimatum was delivered to Serbia, an uneasiness appeared in the financial centers of Vienna, Berlin, New York, and Paris in the form of an unusual volume of securities selling.⁴ This incident was only the first symptom of a developing financial crisis which would have to be stabilized before an effective means of governmental finance for war could be introduced and carried out. No government can successfully institute either a new tax or borrowing program while investments are depreciating in value, banks are experiencing runs on deposits, and industries have no place to borrow to meet immediate expenditures.

The man most closely associated with and instrumental in formulating the action to be taken by the British government in this period was David Lloyd George. An attorney, he had been appointed as Chancellor of the Exchequer by Prime Minister Asquith in 1908. Lloyd George served in that capacity until June of 1915 when he took over the Ministry of Munitions, and later he became Prime Minister of the wartime coalition government. As to his personality, Lord Beaverbrook states that Lloyd George was, "a combination of enormous physical ability joined to a mentality so voracious of experience and so sensitive to atmosphere as to attain to greatness

⁴David Lloyd George, War Memoirs of David Lloyd George (Boston, 1933), I, p. 90.

by the very variety and immensity of its attributes."⁵ Keynes interpretation of Lloyd George is similar to that of Lord Beaverbrook except that it is from a negative viewpoint. In his opinion, Lloyd George had no fundamental beliefs and principles, but was a compromiser.⁶

In Germany the Ministry of Finance during this period was under the direction of Hermann Kuhn who was apparently a relatively ineffective minister as he is seldom referred to in material dealing with the period and was replaced within a short time after the outbreak of the war. Kuhn served in the capacity of Minister of Finance from March of 1912 until January 31, 1915 when he was replaced by Dr. Karl Helfferich.⁷ These two men, Hermann Kuhn and David Lloyd George, who held the top governmental finance positions in the summer of 1914 were faced with the fast developing financial crisis and were expected to take action to restore their country's financial situation to a sound basis in order that a system of war finance could be initiated.

On July 28, following the break in relations between Austria-Hungary and Serbia, the volume of selling became such that the exchange market in New York gave way, and from there spread to the

⁵William Maxwell (Lord) Beaverbrook, Politicians and the War 1914-1915 (London, 1960), p. 76.

⁶John Maynard Keynes, Essays in Biography (New York, 1933), pp. 32-41.

⁷Der Grosse Brockhaus (Leipzig, 1931), X, p. 685.

other foreign exchanges "and was, in fact, the immediate cause of the world financial crisis."⁸ In both Great Britain and Germany during the last few days of July and the first days of August immediate governmental action was necessary in the sphere of finance in order to cope with the crisis.

In London during the last week of July, the crisis showed signs of developing into the worst crash ever experienced in that city. Securities prices depreciated, and on Friday, July 31, the London Stock Exchange closed, all other stock exchanges except New York and the official market in Paris having closed the previous day. The London banks increased the bank rate from 3% to 4%, then to 8% when they found that their reserve position had been seriously weakened through the depreciation of their own investments and the investments of borrowers given as security for loans. On August 1 the Governor of the Bank of England⁹ applied to the Chancellor of the Exchequer for permission to exceed the fiduciary issue of notes as prescribed by the Bank Charter Act of 1844. The request was granted by Lloyd George on the precedents of 1847, 1857, and 1866 when similar courses had been taken by the government. At this same time the bank rate was raised from the new 8% to 10% on discounts and advances, a

⁸Lloyd George, War Memoirs of David Lloyd George, I, pp. 90-91.

⁹The Bank of England was privately owned and directed and participated in private business as well as central banking. The Bank of England was not at this time subject to the amount of governmental control that was characteristic of the German Reichsbank.

measure which had been taken in all previous instances when the Bank Act had been suspended. This increase in the discount rate, besides discouraging the discounting of securities at the bank, caused a transfer of capital to London from other markets whose rate had remained unchanged, and along with such a transfer, the import of gold.¹⁰

Realizing that an increase in the fiduciary issue eased the situation in one direction only, the reserve position, and did nothing to relieve the accepting houses or the stock exchange, meetings for the discussion of possible solutions were held on the second and third, both bank holidays. These meetings resulted in the drawing up of a proclamation in the evening of August 2 granting a one-month moratorium to the acceptors of bills. Besides Lloyd George, this meeting was attended by Sir John Bradbury (permanent head of the treasury), other permanent officials, and Lord Reading (Lord Chief Justice), and Sir George Paish (expert financial advisor to the treasury). On the third the "Postponements of Payments Act, 1914" which gave the government the power to declare a general moratorium and regularized the process regarding a moratorium passed all stages of both houses.¹¹ This act was to remain in force for a six-month period.

¹⁰Lloyd George, War Memoirs of David Lloyd George, I, pp. 91-93.

¹¹65 H. C. Deb. 5s, pp. 1806-1810.

From another meeting of leading representatives of banks and discount houses which concluded at 2 A. M. on Monday, the third, several resolutions were forwarded. One resolution was given immediate effect, it provided that the fourth, fifth, and sixth of August were to be additional bank holidays for the further consideration of the rapidly developing financial problems. During these three additional bank holidays, Lloyd George held conferences with ministers, officials, leading bankers, traders, and with Austin Chamberlain, Chancellor of the Exchequer in the preceding Unionist Government. This invitation to an ex-Chancellor of the Exchequer of the opposing party was an unprecedented event, but was designed to provide the conferences with every available person whose knowledge and experience could prove valuable in meeting the emerging crisis. Following these meeting, Lloyd George announced that steps had been taken for the suspension of the Bank Act, as requested by the Governor of the Bank of England. He also announced that there would be no suspension of specie payment, and was later to state that this action providing for the continuance of specie payment "greatly helped us to recover financial normality, because it tended toward restoration of confidence which was so vitally necessary at the moment." Lloyd George also appealed along patriotic grounds for the public to refrain from attempting to hoard gold, and he accented the great part that finance was to play in the ensuing struggle.¹²

¹²Lloyd George, War Memoirs of David Lloyd George, I, pp. 94-96.

Following these decisions, the government took up the currency problem, a problem which developed because the public could not be induced to accept £5 Bank of England notes which were not represented by £5 of gold. Also because of the suddenly increased business activity and varied price rises, a need for more currency and for smaller denominations developed.¹³ The government decided upon the issuance of three million pounds of £1 and 10s notes which would be convertible at the Bank of England, and which were to ready at the end of the holidays. These notes were to be available at the rate of five million pounds per day until there was a sufficient supply. Governmental action made postal money orders temporarily legal tender during this period of currency shortage. On the sixth, the Currency and Bank Note Bill which legalized this issuance of new currency and notes, and which suspended the Bank Act passed all stages in both houses.¹⁴ Lloyd George also took action reducing the newly imposed bank rate from 10% to 6% stating that this action reducing the bank rate would tend to reassure the business community as a sign of the strength of the Bank of England.¹⁵

¹³Henry F. Grady, British War Finance 1914-1919 (New York, 1927), p. 14.

¹⁴65 H. C. Deb. 5s, pp. 2101-2107.

¹⁵Lloyd George, War Memoirs of David Lloyd George, I, p. 97.

Also, on August 6, the First General Proclamation which extended the moratorium until September 4 on bills of exchange, negotiable instruments, and contracts other than those for wage payments was announced.¹⁶ Less than a week later, a means was approved whereby the Bank of England, under government guarantee, set about to discount bills of exchange drawn before August 4, and to relieve the holders of these bills of all liability.¹⁷

Thus did the British government act to curb the financial chaos which was developing during the diplomatic crisis preceding the actual outbreak of war. The actions which were decided upon by consultation among the officials of the financial institutions, government officials, and political leaders were quickly instituted and were successful in curbing the financial crisis.

* * *

Even though Germany did have a theoretically operative plan for financial mobilization from the moment of the declaration of war, through the thirty days of the mobilization period or to the first decisive battle, she experienced much the same public reaction that England experienced during the critical diplomatic period. There was panic on the stock exchange, a panic beginning on July 23 and continuing until the closing of the exchange on the twenty-ninth. There was a run on the banks for the conversion of notes to gold, a

¹⁶65 H. C. Deb. 5s p. 2103.

¹⁷Hurwitz, State Intervention in Great Britain, p. 67.

withdrawal of savings from savings accounts and a hoarding of money, all of which prompted the Reichsbank to give notice that after July 31 it would no longer redeem its notes in gold.¹⁸

The German financial mobilization plan had resulted from the evident strain on the monetary and credit system in 1905 during the Morocco crisis. This incident had prompted a consideration and improvisation of measures concerned with a future financial mobilization for war. The first action was the introduction in 1906 of low value bank notes to take the place of gold coin so that this gold could be put into reserve. In 1909 the Reichsbank charter came up for renewal. Provision was made in Article 3 requiring joint stock banks to increase their bank deposit in the Reichsbank and to publish a bi-monthly balance sheet.¹⁹ In 1910 Secretary of State Wermuth placed before the Emperor a series of financial measures to be taken by the government so as to increase the gold reserve of the Reichsbank and protect its gold supply in the event of war. These measures would provide, should war break out, for the increase of treasury notes by 100%, the use of treasury bills as bankable paper money securities, and the establishment of special credit offices to relieve

¹⁸Bogart, Direct and Indirect Costs of the War, p. 198.

¹⁹L. Bendix, "Germany's Financial Mobilization," Quarterly Journal of Economics, XXIX (1915), pp. 724-727.

the Reichsbank of part of its task as a credit granting institution.²⁰ All of these measures were to cover the financial needs of the period of mobilization only. It had been anticipated that following the mobilization period and the first decisive battle, German and foreign capital would regain such confidence in the ultimate German success that it would be placed at the disposal of the German treasury at a reasonable rate of interest.²¹

On August 1, the decree for the mobilization of the German armed forces was issued, and the plan for financial mobilization was put into effect. The Imperial war treasury consisting of 120 million marks in gold from the French indemnity of 1871 and an additional 85 million marks in gold raised through the act of July 3, 1913, was transferred to the Reichsbank in order to increase the specie balance. Short term credit was granted by the Reichsbank to finance the mobilization of the land and sea forces. Another measure provided for the granting of extensive credit to economic and commercial circles through the central bank of issue, and yet another provided for extensive loans on stocks, bills, and securities. These loans were to be granted by loan offices (Darlehenskassen) which were to be opened in all of the larger cities of the Empire.²²

²⁰The Reichsbank while privately owned was managed by appointees of the Emperor and performed a central bank function through providing facilities for the whole empire and acting as banker to the empire and the states free of charge.

²¹Mendelssohn Bartholdy, The War and German Society, pp. 64-67.

²²General Erich Ludendorff, The Nation at War (London, 1936), p. 47.

On August 4, the following mobilization laws were adopted: Law 4448 which made Imperial Treasury notes legal tender and suspended specie payment for both these and for the Reichsbank notes; Law 4435 which abolished the tax on all note circulation in excess of 550,000, 000 marks over and above the gold coverage and empowered the Reichsbank to include three-month treasury bills of the Reich in its note coverage; Law 4446 which organized the Loan Banks which had previously appeared in Prussia in 1848 and in the Franco-Prussian War of 1871; and Law 4434 which provided that subsidiary and minor coins were no longer exchangeable for gold.²³

Germany, unlike Great Britain, did not declare a moratorium, and it was the boast of financiers that she had so perfected her credit mechanism that she did not have to resort to a moratorium. Even though a legal moratorium did not exist, a defacto moratorium did exist. The abrogation of private contracts for payment in gold which had been entered into prior to July 1, 1914 was authorized by the government, and by the edict of the Bundesrat on August 6, the payment of bills and checks was extended for 30 days, and mortgages were postponed until the end of the war.²⁴

In meeting the problems precipitated by the threat of war and made acute by the deepening war crisis, both countries had been forced to take action. Besides upsetting the international financial

²³Bendix, Loc. Cit., pp. 728-32.

²⁴Bogart, Direct and Indirect Costs of the War, p. 201.

structure, the threat of war had upset the internal financial structure. On the stock market the position of domestic as well as foreign investments had been weakened. This situation brought about a temporary closing of the exchanges, a run on the banks, and either a temporary closing of the banks or a suspension of specie payment.

In the comparison of the measures taken by the governments of Great Britain and Germany in coping with this financial crisis, one notes only one significant difference. It is the governmental attitude toward specie payment. Great Britain viewed specie payment as a way of assuring the public of the stabilization of finance. Germany took the viewpoint that a strong gold reserve was the key to financial stabilization. In all other problems dealing with the initial financial crisis, the action taken, if not the same, had a similar effect in the stabilization of the internal financial structure.

CHAPTER III

THE FIRST WAR YEAR

Immediately upon completing the necessary enactments for the stabilization of the financial situation, Great Britain and Germany turned to the problems involved in the financing of the war period. Lloyd George, an advocate for the covering of as much of the war expenditures as possible by taxation,¹ voiced the feelings dominant within the British majority party in his budget speech before the House of Commons on November 17, 1914:

I also point this out, that had Mr. Pitt not set that noble and heroic example, and had it not been followed by his successors, we should today have been devoting the proceeds of a fourpenny Income Tax to pay interest in respect of money which he found out of taxation, which otherwise would have been borrowed and been added to the National Debt.²

Dr. Karl Helfferich, at this time Director of the Deutsche Bank in Berlin, voiced the dominant principle behind Germany's financial policy during the First World War. That is, that Germany's enemies should pay for the whole cost of the war after their defeat, and all of the military expenses, to include the sum spent for peacetime maintenance of the army, be placed in an "extraordinary budget" covered by loans and treasury bills to be redeemed out of reparations

¹Lloyd George, War Memoirs of David Lloyd George, I, p. 108.

²68 H. C. Deb. 5s, p. 352.

payments at war's end.³ In viewing the approaches of these two countries it is important to remember that at this time neither government anticipated a war lasting more than six months.

In Great Britain on August 6, the first war credits bill was considered in committee and agreed to without dissention, and on the eighth was agreed to without amendment by the House of Lords. The bill granted £100,000,000 to be used for defraying expenses which it was felt would be incurred during the year ending March 31, 1915.⁴ It was at this time that the government and the country were faced with the issue of whether the large sum needed if the war were to continue far into 1915 should be obtained entirely by loans and added to the national debt, or whether the sum should be paid for so far as possible by current taxation, "and thus reduce the debt burden to be handed on to the next generation."⁵ In the debate on this first war credit bill the only total opposition was from Sir Wilfred Lawson, member from Cumberland, Cockermouth, who hesitated at a "Vote of Credit for a war in Europe with which we have no direct concern."⁶

³Klaus Epstein, Matthias Erzberger and the Dilemma of German Democracy (Princeton, 1959), p. 331.

⁴Both governments operated their financing on a fiscal year beginning April 1 and ending March 31.

⁵Lloyd George, War Memoirs of David Lloyd George, I, p. 106.

⁶5 H. C. Deb. 5s, p. 2095.

On November 16, 1914, the motion for a second vote of credit was introduced and considered by the House of Commons in Committee. The British government found that the costs of war were much higher than anticipated, but they had not yet revised their belief in a short war. This supplementary war credit for the remainder of the fiscal year ending March 31, 1915 was not to exceed £225,000,000 and was to be used for the

- . . . conduct of Naval and Military operations, for assisting the Food Supply, and promoting the Continuance of Trade, Industry, Business and Communications, whether by means of insurance or indemnity against risk, the financing of the purchase and resale of foodstuffs and materials, or otherwise, for Relief of Distress, and generally for all expenses arising out of the existence of a state of war.⁷

On the next day, November 17, Lloyd George, Chancellor of the Exchequer, introduced into committee the first war budget. This war budget anticipated additional taxation through a doubling of the income tax from 1 shilling 4 pence to 2 shillings 8 pence on the pound, a doubling of the supertax, a raising of the beer duty from 7s 9d per barrel to 25s per barrel, and an increase of the tea duty from 5d to 8d per pound.⁸ Following Lloyd George's introduction of the budget, Mr. Geoffrey Collins, member from Greenock, stated that the country would not sufficiently appreciate the economic effects of the war "unless taxation is raised and each man feels it in his own pocket."⁹ And Mr. David Mason, member from Coventry, stated a few

⁷68 H. C. Deb. 5s, p. 256.

⁸Lloyd George, War Memoirs of David Lloyd George, I, p. 106.

⁹Hirst and Allen, British War Budgets, p. 53.

days earlier:

No one for a moment would suggest that this War can be carried on by taxation, or even largely by taxation, because of its enormous cost, but if you have a certain proportion of War supplies derived from taxation, you would bring before the people the fact of what War is, what the expenses are, and this would tend, in the nature of things, to direct men's minds, as soon and as expeditiously as possible, to the possibility of bringing about an honourable peace.¹⁰

The prevailing government view on taxation and borrowing was voiced by Lloyd George in his budget address before the House of Commons.

It is obviously out of the question to raise the whole of this sum (£450,000,000) of money by taxation... If we do not tax and tax heavily, it will be a serious departure for the first time from the honoured traditions set and hitherto maintained by this country in every single war in which it has ever been engaged.¹¹

And while expressing no opinion as to the exact length of the war, he took the viewpoint of a longer war, possibly six months, when presenting his budget:

We are fighting a tough enemy. We are fighting an enemy that cannot submit to any terms we can accept... without a smashing defeat.... Therefore if there is any doubt about the length of the War, I am bound, as Chancellor of the Exchequer, to assume a longer period rather than a shorter period in making my plans.¹²

Following the third reading on November 26, 1914, the Finance Bill was passed and war taxation in Great Britain was a reality.¹³

¹⁰ 68 H. C. Deb. 5s, pp. 55-56.

¹¹ Ibid., p. 350.

¹² Ibid., p. 353.

¹³ Ibid., p. 1464.

Also during November, in accordance with the war loans bill which had been passed August 28, 1914, Lloyd George announced the issuance of the first war loan. The war loan bill had differed from all previous war loan bills in that the actual amount to be offered had not been inserted, and the method to be used in raising the money had not been specified. Neither had a date been designated for the issuance of the loan, a factor which enabled the government to set the issue date in order to take the best advantage of market conditions.¹⁴ This loan, a 3½% security with a face value of £ 350,000,000 was issued at 95 and was to be redeemable at par in the period 1925- 1928. This loan was quickly oversubscribed and yielded £ 332,500,000.¹⁵

In May, 1915, Lloyd George, shortly before vacating the office of Chancellor of the Exchequer, presented his second war budget in which no new features or modifications of taxation were advanced. Lloyd George in his memoirs gave two reasons for this. Firstly, the additional taxes imposed by the November 1914 budget were only beginning to produce, and while he agreed that additions to taxation would be necessary, he advocated waiting until autumn for a decision as to what they should be. Secondly, the only additional taxation he was willing to initiate in May for immediate implementation was a tax on alcoholic liquors. He felt that the opposition to be encountered

¹⁴66 H. C. Deb. 5s pp. 54-55.

¹⁵Lloyd George, War Memoirs of David Lloyd George, I, p. 109.

at that time made it impossible to introduce such a tax without raising a "most violent and undesirable political controversy."¹⁶

By June 21, 1915, when the second war loan was issued, Lloyd George had accepted the position of Minister of Munitions and Reginald McKenna, a self assertive man with strength of opinion and conviction, had replaced him as Chancellor of the Exchequer. Lord Beaverbrook in his evaluation of McKenna states "that the more McKenna infuriates you by his intellectual decision, the more you feel drawn towards him personally."¹⁷ The second war loan, issued shortly after McKenna took office, was issued with an upper limit of £910,000,000 and consisted of 4½% bonds issued at par. The list for the loans was closed July 10, and the loan yielded £570,000,000 in new money and a conversion of government securities in the amount of £276,500,000.¹⁸ The increase in the interest rate on this loan over the interest rate on the previous loan prompted severe criticism from Lloyd George who thought the increase unnecessary because the expansion in nominal capital resources due to inflation and the restriction of an overseas market for investment money made it possible for the government to obtain the money it required by voluntary investment without raising the interest rate. He advocated that investors would have had to accept this rate for lack of an alternative, and if they were

¹⁶ Ibid., p. 105.

¹⁷ Beaverbrook, Politicians and the War, p. 149.

¹⁸ Lloyd George, War Memoirs of David Lloyd George, I, p. 110.

unwilling to do this, "there would be clear and popular ground for the conscription of capital for war purposes."¹⁹

In Great Britain at the end of the first year of war the amount of taxation actually paid into the Exchequer was £235,000,000. This can be compared with £193,000,000 for the peace year immediately preceeding,²⁰ and in this context shows that an effort was being made by the government to increase the tax revenue. Even though this increase in tax revenue was small, it contrasts with the status quo German tax program for the first war year.

* * *

During the first months after the outbreak of the war, Germany pursued a financial course similar to that of Great Britain. On August 4, the Reichstag approved the war credits asked for by the government.²¹ In September, the first war loan was issued and over-subscribed. According to Dr. Karl Helfferich, Director of the Deutsche Bank in Berlin, the funds raised by this loan "relieves our government for a period that extends well into next year, of any anxiety concerning the procuration of the money required for the continuation of the war."²² This proved to be an overestimation, for in

¹⁹Ibid., p. 110.

²⁰Stamp, Taxation During the War, p. 45.

²¹Philip Scheidemann, Memoirs of a Social Democrat, tr. by J. E. Michell (London, 1929), I, p. 276.

²²Dr. Karl Helfferich, The German War Loan (Berlin, 1914), p. 8.

Germany, as in Great Britain, the government found that daily war expenditures far exceeded the estimation. Because of this underestimation of expenditures which was due to the complete lack of knowledge of the financial demands of a total war, Germany found it necessary to offer new bond issues in March and again in September of 1915. Both issues were oversubscribed.

While the war credits were almost unanimously approved in the Reichstag on August 4, 1914, opposition to the approval of further war credits steadily grew, particularly among the Socialists. Philip Scheidemann states that in early August the civilian population had been led to believe that Germany had been attacked, that the French had poisoned German water supplies, and that French airmen had dropped bombs on Nuremberg and Furth. All had been convinced, says Scheidemann, that throughout the diplomatic crisis Germany had done her best to prevent war.²³ Whereas the opposition to the war credits bill in August 1914 had numbered 14, the opposition climbed to 17 in the December war credits vote. In March 1915 the opposition numbered 25, increased to 36 in August, and rose to 43 in the December 1915 vote. This increase in opposition throughout 1915 was not only due to the socialist opposition to the annexationist policy, but also due to the increasing press censorship, the increasing threat of arrest, the ever increasing food problems, and the unsatisfactory relief being provided soldiers wives.²⁴ Of those approving war credits, many approved the

²³Scheidemann, Memoirs of a Social Democrat, I, p. 203.

²⁴Ibid., p. 276.

annexationist and indemnity policy, others perhaps rationalized as did Scheidemann in the December 1914 vote, that it would be easier for the Socialists on the strength of their conduct during the war to get what they had found impossible before the war.²⁵

In February 1915, Dr. Karl Helfferich, a well educated man who had been a university lecturer, a railway director, and a bank director, was appointed to the Ministry of Finance.²⁶ In his speech before the Reichstag on March 10, 1915, Helfferich gave expression to his beliefs regarding governmental war finance saying that:

The means of financing a modern war are substantially the following: First, the issue of loans; second, the use of the printing press for the issue of notes and paper money; third, a reduction of expenses and war taxation.²⁷

He also stated to the Reichstag early in 1915 that, "We do not desire to increase by taxation the heavy burden which war casts upon our people."²⁸ And in the spring of 1915 when the cost and unpredictable length of the war ought to have become apparent, Dr. Helfferich still failed to introduce new taxes. According to Epstein in his biography of Matthias Erzberger, this failure was due to a continued faith in an early victory, the undesirability of controversial legislation in the midst of war, and the political difficulties due to the federalist

²⁵Ibid., p. 246.

²⁶Der Grosse Brockhaus, VIII, p. 362.

²⁷Cited in Bogart, Direct and Indirect Costs of the War, p. 209.

²⁸Cited in Alexander Dana Noyes, Financial Chapters of the War (New York, 1917), p. 67.

limitations on Germany's national finance.²⁹

Following the financial stabilization of the early war period, the governments of both countries turned to the problem of obtaining immediate funds for the financing of the initial war period. Again both countries followed a similar course, the Parliamentary approval of war credits. During the first year of the war, Germany did not stray from her announced course of war finance, borrowing. Great Britain, however, embarked on a financial program which involved both borrowing and taxation. Her initial tax program, even though moderate, was introduced within a few months after the outbreak of the war.

Both countries encouraged the public to invest available investment money in loans to the government and thus the government was not only able to obtain this money for war finance, but was able to drain off excess money and curb inflationary tendencies. In the field of governmental war finance, the governments of both nations had been successful in the first year of the war.

²⁹Epstein, Matthias Erzberger, p. 331.

CHAPTER IV

WAR FINANCE 1915-1918

In Great Britain in the fall of 1915, a tax program much more comprehensive than that embodied in the First War Budget was presented to the House of Commons for approval. While Lloyd George had taken the first steps towards a program of taxation for the war effort, McKenna put into effect the first realistic tax program. McKenna's tax program took into account the rising costs of the war, the increasing incomes of the public and of business, and the general willingness of the public to be taxed.

The Second War Budget was presented by McKenna to the House of Commons in Committee on September 21, 1915,¹ and was debated upon until December 9, 1915,² when it was passed after the third reading. The most significant provisions of this budget were the 40% standard income tax increase, from 2s 6d to 3s 6d on the pound, and the reduction of the minimum income exemption from £160 to £130. This reduction in the exemption extended the tax base by the inclusion of numerous weekly wage earners as taxpayers. Since these weekly wage earners were likely to experience difficulty and hardship from a system of yearly assessment and collection, a system of quarterly assessment and collection was introduced. In addition to these changes

¹74 H. C. Deb. 5s, p. 347.

²76 H. C. Deb. 5s, p. 1653.

in the standard income tax, a graduated supertax was placed on incomes of over £2,000. In this budget program McKenna also established an excess profits tax, the rate to be 50% of the profits in excess of the normal average profit for the three years preceding the war. In the area of customs and excise taxes, the new program provided for an ad valorem duty of 33 1/3% of clocks, watches, musical instruments, plate glass, and hats. The duty on sugar was increased from 1s 10d per hundred weight to 9s 4d per hundred weight, and the duties on motor fuel, patent medicines, tea, cocoa, coffee, chicory, dried fruits, and tobacco were doubled.³

Upon the passage of this program, Mr. Tim Healy, member of Parliament from Cork, North-East, is reported to have congratulated the Chancellor of the Exchequer stating that the Chancellor "would have the satisfaction of showing to the enemy a practically unanimous House in the face of increased taxation of an enormous amount."⁴ Even though this budget provided for a tremendous increase in taxation, there were some who thought that even higher taxation was advisable. The Spectator, according to Stamp, stated that the budget showed "great courage", and that even "bolder proposals" should have been promoted.⁵ Punch carried an article which commented, "'Lloyd

³Hirst and Allen, British War Budgets, pp. 81-85.

⁴Stamp, Taxation During the War, p. 52.

⁵Ibid., p. 52.

George chastised the taxpayers with whips -- McKenna lays on with scorpions and yet no murmur is heard."⁶

In the April, 1916 budget the income tax rate was again raised, and the maximum rate was increased from 3s 6d to 5s on the pound. The tax rate on excess profits was upped from 50% to 60% and the taxes on amusements, sugar, cocoa, coffee, chicory, matches, and railway tickets costing over 9d were also increased.⁷

It was during this period, mid-1916, that many Britishers were beginning to discuss and consider the possibility of an indemnity provision to be included in the peace settlement. Sir Josiah Stamp reports that this discussion of indemnities to be levied by the Allies was becoming more frequent because of the boasting by the German Chancellor of a German peace settlement which would impose enormous indemnities on the defeated.⁸

A change in the government occurred on December 5, 1916, when Mr. Asquith resigned as Prime Minister. A coalition government was formed under Lloyd George, and in this new government Mr. Bonar Law, a successful and capable businessman and politician, was given the position of Chancellor of the Exchequer. Lord Beaverbrook says of Bonar Law, that he "always had a strong streak of melancholy in his

⁶As quoted in Stamp, Taxation During the War, p. 52.

⁷Ibid., pp. 88-89.

⁸Ibid., p. 90.

disposition. At the best of times he was never exuberantly gay."⁹

The 1917 and 1918 budgets which were introduced by Bonar Law provided for few changes in the British tax policy over those of the previous year. The notable changes in taxation as presented in the 1917 budget were the increase in the excess profits tax from 60% to 80%, and the increase in the taxes on tobacco and amusements.¹⁰ The 1918 budget also provided for a few increases in existent taxes, the supertax on incomes over £2,500 was increased to 4s 6d on the pound, the beer duty per barrel was doubled, and the income tax, spirit duty, tobacco tax, luxury tax, sugar tax, and match duty were raised.¹¹

In January, 1917, the third and last fixed subscription period British war loan was issued. This loan consisted of two forms of bonds, a 4% tax free bond issued at par, maturing 1929-1942, and a 5% taxable bond issued at 95, and maturing from 1929-1947. This loan yielded more than £1,000,000,000 in new money, and the conversion of earlier securities in the amount of £1,100,000,000.¹² In October, 1917, a system for the continuous sale of "National War Bonds" was initiated. These bonds were convertible and were acceptable in payment of death duties and excess profits taxes.¹³

⁹Beaverbrook, Politicians and the War. p. 254.

¹⁰Stamp, Taxation During the War, pp. 109-110.

¹¹Ibid., pp. 124-126.

¹²Grady, British War Finance 1914-1919, p. 133.

¹³Ibid., p. 136.

While mid-1915 had evidenced in Great Britain the introduction of significant changes in tax policy, no change occurred in the German tax-policy until the spring of 1916. By the spring of 1916, the lagging revenue to cover the ordinary budget, and the pressure from public opinion and from the socialists as expressed in the reichstag forced Dr. Helfferich to yield to a somewhat weak program of taxation.¹⁴ On March 16, 1916, Dr. Helfferich asked the Reichstag for another non-recurrent war profits tax, a turnover tax, and an increase in the tobacco tax.¹⁵ In June, 1916 all of these taxes were put into effect, but of the three, the tobacco tax was the only one which proved financially successful in 1916. Though these taxes, and the new and increased taxes which followed, were to yield almost nothing in excess of the ordinary budget, they did indicate a slight change of policy and outlook. This change was a recognition by the government that the war was going to last much longer than had been expected, and to some extent a recognition of some of the demands of the public concerning the financing of the war.

Shortly after the introduction of these new taxes in 1916, Dr. Helfferich left the treasury for the home office and was replaced by Count Siegfried von Rodern, a politician and statesman.¹⁶ Count von Rodern followed much the same policy as had his predecessor, that of

¹⁴Epstein, Matthian Erzberger, p. 332, and Stolper German Economy 1870-1940, p. 106.

¹⁵Kuczynski, Loc. Cit., p. 765.

¹⁶Epstein, Matthias Erzberger, p. 332.

relying almost entirely on loans and as little as politically feasible on taxation. His views on Germany's method of financing the war were effectively expressed on April 23, 1918, when he questioned, "Is it possible to carry on at the same time a good loan policy and a good tax policy? It seems doubtful to me."¹⁷ In this statement Count von Rodern refers to the tremendous success of the German borrowing program in the financing of the war, and offers an excuse for the ineffective taxation program. He also recognizes Britain's superior tax program, and points out that Britain's borrowing program fell behind Germany's in the raising of funds. In his attempt to justify Germany's war financing program he seems to have completely ignored the possibility of a program which would combine the advantages of both methods of war financing.

Not all among the upper classes were in agreement with the government's position. Albert Ballin, prominent German businessman and politician, wrote to the Secretary of State for National Economy in September of 1917 advocating an increase in direct and indirect taxation, and a reduction of indebtedness.¹⁸ The socialists, according to Scheidemann, were likewise for a program of taxation, but they wanted a tax program which would fall more upon the war profiteers and the Junkers.¹⁹ One report also indicates that perhaps there were

¹⁷Kuczynski, Loc. Cit., p. 781.

¹⁸Bernhard Huldermann, Albert Ballin, tr. by W. J. Eggers (London, 1922), p. 275.

¹⁹Scheidemann, Memoirs of a Social Democrat, pp. 311, 247.

many within the Reichstag who were not convinced of the merits of the existing program of finance.

When in February last Count von Rodern tried to persuade the Reichstag that it was not Germany's liability that was being piled up but that of her enemies, his actual words -- 'against the demand of our enemies for reparation we shall be able to put the word indemnity' -- had not a very hopeful ring.²⁰

Count von Rodern's 1917 tax program, as adopted by the Reichstag, established a 20% supplement to the 1916 war or excess profits tax, placed a 20% tax on the price of coal at the pit, and introduced a fairly high tax on railway fares.²¹ The 1918 program extended the war tax for another year and increased the tobacco, beer, sparkling wine, coffee, tea, and cocoa duties, and raised the general sales tax from 1 Reichsmark per thousand to 5 Reichsmarks per thousand.²²

Despite this increase in the rates of existent taxes and the introduction of new taxes, the revenue covered a very small amount of the war connected expenditures. In the fall of 1916, the borrowing program failed to provide the funds necessary for the coverage of the floating debt, short term inflationary borrowing.²³ Since the government was not willing to increase taxation in order to cope with the situation, the floating debt continued to expand, and inflation

²⁰H. J. Jennings, "Germany's Financial Outlook," The Nineteenth Century LXXXVIII (Feb., 1918), p. 375.

²¹Kuczynski, Loc. Cit., pp. 772-773.

²²Ibid., pp. 775-779.

²³Wirth, Loc. Cit., p. 4.

became another means of German war finance. Perhaps taxation on an adequate scale would have caused resentment among the taxpaying classes and would have exposed the real character of the "indemnity myth" as one British critic asserts.²⁴ Evidence seems to show, however, that most Germans at this time still believed in the "indemnity myth," and that conditions did not yet warrant a change in this belief.

The table following illustrates the extent to which the borrowing program failed to cover the floating debt after 1916.²⁵

<u>War Loan</u>	<u>Date</u>	<u>Amount Subscribed*</u>	<u>Treasury bills outstanding at end of period of subscription*</u>
1	Sept. 1914	4,460	2,632
2	Mar. 1915	9,060	7,209
3	Sept. 1915	12,101	9,691
4	Mar. 1916	10,712	10,388
5	Sept. 1916	10,652	12,766
6	Mar. 1917	13,122	14,855
7	Sept. 1917	12,626	27,204
8	Mar. 1918	15,001	38,971
9	Sept. 1918	10,443	49,474

*In Millions Reichmarks

For a meaningful evaluation of the tax programs of Great Britain and Germany, it is necessary to compare tax sources and their respective yields. Following is a comparison of the wartime financing programs of Great Britain and Germany.

²⁴Jennings, Loc. Cit., p. 379.

²⁵Karl Helfferich, Money, tr. by Louis Infield (New York, 1927), p. 228.

GREAT BRITAIN

Tax Source: (in percent) ¹	1913	1914	1915	1916
Customs	21.82	20.60	20.48	13.69
Excise	24.32	22.32	21.04	10.94
Estate	16.66	15.02	10.64	6.04
Stamp duty	6.12	3.91	2.33	1.50
Land tax, house duty	1.65	1.34	.91	.49
Income tax, including super tax	28.98	36.59	44.40	39.82
Excess profits duty	-0-	-0-	.07	27.42
Land value duties	.45	.22	.13	.10
	*	*	*	
Total tax income, in thousands pounds sterling	163,035	190,072	290,873	516,513
Other income ²	25,208 ³	36,000	46,000	56,000
Expenditures	197,492	566,000	1,559,000	2,197,000
Tax Source: (in percent)	1917	1918	Total	
			1914-1918	
Customs	11.54	13.15	14.33	
Excise	6.28	7.58	10.77	
Estate	5.17	3.92	6.39	
Stamp duty	1.39	1.58	1.79	
Land tax, house duty	.43	.32	.54	
Income tax, including super tax	38.77	37.27	39.02	
Excess profits duty	36.32	36.09	27.05	
Land value duties	.10	.09	.11	
	*	*	*	
Total tax income, in thousands pounds sterling	614,284	786,803	2,398,545	
Other income	93,000	102,000	333,000	
Expenditures	2,696,000	2,579,000	9,597,000	
	*	*	*	
Percentage of expenditures covered by:				
Taxation		2,398,545	24.98%	
Other		333,000	3.46%	
Borrowing		6,873,000	71.56%	

¹The figures from which these percentages are computed appear in Kuczynski, Loc. Cit., p. 786. The total revenue figures, except for 1913, are found in Stamp, Taxation During the War, p. 249.

²This includes: net receipts from crown lands, gross post office receipts, receipts of civil dept., etc.

³In 62 H. C. Deb. 5s, p. 60, the amount of other income is not given, but the total tax including other income is given as £198,243.

GERMANY

Tax Source: (in percent) ¹	1913	1914	1915	1916
Customs	40.11	25.05	25.31	23.13
Excise	39.05	34.74	36.43	44.59
Stamp duty	15.03	8.09	11.62	16.63
Traffic taxes, including statistics fees	.12	.05	.07	6.01
Purchase tax	-0-	-0-	-0-	-0-
Estate tax	2.74	1.94	3.43	4.32
Property tax	-0-	-0-	-0-	-0-
Increment to real property	.90	.13	.06	.04
One time taxes	.05	28.48	21.65	4.32
Other	2.00	1.52	1.43	.96
	*	*	*	
Total tax income, in Millions				
Reichsmarks	1,693.8	2,238.5	1,422.0	1,505.0
Other income ²	523.9	112.2	313.2	523.9
Expenditures:				
Ordinary	2,426.5	1,653.2	1,785.6	2,973.8
War	111.4	7,000.6	23,922.8	24,767.1
				Total
Tax Source: (in percent)	1917	1918	1914-1918	
Customs	3.26	2.24	8.96	
Excise	16.83	34.24	28.51	
Stamp duty	6.52	8.61	8.63	
Traffic taxes, including statistics fees	2.97	8.89	4.56	
Purchase tax	-0-	2.53	.83	
Estate tax	.98	1.31	1.67	
Property tax	1.42	1.50	1.04	
Increment to real property	.02	.01	.03	
One time taxes	67.93	40.61	45.34	
Other	.07	.06	.43	
	*	*		
Total tax income in Millions				
Reichsmarks	7,144.6	5,935.8	18,246.4	
Other income	685.8	858.9	2,494.0	
Expenditures:				
Ordinary	6,893.6	7,146.0	20,452.2	
War	45,121.8	36,884.7	137,697.0	
	*	*		
Percentage of expenditures covered by:				
Taxation		18,246.4	11.53%	
Other		2,494.0	1.57%	
Borrowing		137,541.0	86.90%	

¹The figures from which these percentages are computed appear in Wirth, Loc. Cit., pp. 31-38.

²This includes: export duties, funds from the government liquor monopoly, surpluses or deficits from government owned enterprises, tax on bank notes, etc.

From this comparison, several factors not previously discussed become apparent regarding the war financing activities of each country. A comparison of the total yearly tax yield discloses that Great Britain by the end of fiscal year 1918 had increased her revenue from taxation 4.8 times over fiscal year 1913. Germany's revenue from taxation had increased by the end of fiscal year 1917 to 4.2 times that of fiscal year 1913. The decrease of German revenue which occurred in 1918 can be attributed to the financial and economic disturbance caused by the unsuccessful conclusion of the war during that fiscal year. While this increase in taxation revenue is similar, it should be noted that this increase in German revenue occurred in one year, 1917, and does not represent a steady yearly increase in tax returns as was the case in Great Britain. The large tax returns of Germany in 1917 and 1918 are accounted for by the new and increased taxes introduced in 1917.

A closer examination shows that in Great Britain, while the monetary revenue from almost every tax item increased considerably, the largest increase, individual tax to total tax yield, came from the income tax and the excess profits duty. The income tax in 1913 accounted for only 29.0% of the total revenue, while in 1918 the income tax and the excess profits tax yielded 73.3% of the total revenue. In Germany after fiscal year 1915, the monetary revenue from taxes also increased, the notable exception being the customs tax. While 80.7% of the governmental income in 1913 was provided by the customs and excise taxes, that percentage dropped to 20.0% in

1917. In 1917 the extraordinary war tax or excess profits tax was the largest contributor to central government revenue, yielding 67.9% of the total tax revenue for that year.

It is apparent that Great Britain while steadily increasing taxes during the war period, shifted her emphasis to large revenue producing and generally popular taxes. Germany, however, did not increase tax rates or change tax policy until fiscal year 1916 when the government yielded very slightly to a popular tax program. In the case of the extraordinary war tax or excess profits tax which did have popular support within the country, the tax was non-recurrent and did not apply effectively to individuals. The income tax, a generally popular tax, was never initiated in Germany, but a sales tax, a tax usually unpopular among the low income groups was established in 1918 and proved moderately successful in revenue return.

A comparison of tax source also reveals that Germany exerted a much greater effort in controlling consumption through the use of the excise tax than did Great Britain. Of particular note are the German coal tax and the passenger ticket tax, taxes on items extensively used by the government.²⁶ While the excise taxes on many other items, as tobacco and alcoholic beverages, were not only consumption controlling, but revenue producing, the excise taxes on goods which were extensively used by the government were not revenue producing, but rather a transfer of governmental funds from income, to expense, to income. This factor leads to the conclusion that the taxes levied

²⁶Mendelssohn Bartholdy, The War and German Society, p. 88.

on these goods were levied for the purpose of controlling consumption rather than for producing revenue.

Since tax rates remained unchanged in Germany through fiscal year 1915, several factors appear in a comparison of the yields for these years. The revenue from customs taxes decreased by 47.0%, the return from the excise taxes by 21.7%, and the stamp taxes by 35.1%. This indicates a scarcity of such items as well as a reduction in the consumption of these items. The stamp tax on securities, business acquisitions and transfers of real estate yielded much less in fiscal year 1915 than in fiscal year 1913 indicating that fewer transactions occurred in these areas than during the pre-war years. The notable increases in returns were the tobacco tax, a result of the increased consumption, and the stamp tax on companies and on insurance, a result of an increase in the number of new businesses and in the number of new insurance policies. This increase in companies can partially be explained by the high profits available in the field of war production. The increase in tax revenue from the insurance tax is accounted for by the increased insurance sales during the war period.

Finance, while a minor item when viewing the total human and economic demands of war, is an indication of the attitudes and aims of those possessing influence within the government of a country. In the case of Great Britain, those making the financial decisions depended upon the public for the support of such decisions and could not politically afford to go against public opinion. In Germany, however, those responsible for the financial decisions depended a great deal

upon the aristocracy and the military for the support of their program. They developed a program which would enlist the support of these two classes, and yet would not alienate or overburden the lower income groups. Under this program, those with money would finance the war through loans, and theoretically the low income groups would not experience the financial burden of the war. Upon the completion of the war, those who had done the financing would be repaid with interest for their financial support of the war effort from the funds obtained in the indemnity settlements with the defeated nations. This program won considerable support, for it appeared that no one, except the defeated nations, would suffer financial burden. Adding support to this program was the memory of the successful indemnity settlement with France in 1871. This attitude was clearly incorporated into the peace settlement with Russia in early 1918 at Brest-Litovsk where in addition to annexations, the sum of six billion marks was inserted as compensation for German losses.²⁷ To this peace settlement there were few objections within the Reichstag, even among the Social Democrats who, if they did not vote for the peace settlement, did not vote at all.²⁸ It is thus apparent that even at this time, early 1918, Germany supported a financial policy which would finance the war expenditures through indemnity settlements with the defeated.

* * *

²⁷John W. Wheeler-Bennett, Brest-Litovsk, The Forgotten Peace, March 1918 (London, 1938), pp. 439-46.

²⁸Scheidemann, Memoirs of a Social Democrat, p. 125.

In Great Britain, from 1914 on, the tax program was steadily increased and expanded, and two new concepts were introduced into the field of war finance: one, a system for the quarterly assessment and collection of the income tax, a factor which facilitated the payment of the income tax by the workers and other low and fixed income groups; two, the insititution of a system for the continuous sale of war bonds, a system which provided a continuous inflow of money and reduced the need for bank credit. Germany, on the other hand, made no attempt to expand her tax program beyond providing the funds necessary for financing the ordinary or, non-war expenditures. Although a certain amount of expansion did occur, this was made necessary by the decrease in revenue, particularly customs revenue, and by the inflationary activity which began to expand rapidly in 1916 following the failure of the 1916 and subsequent war loans to cover the floating debt.

One area in which the financial programs of both countries fell short was the area of excess profits taxation. Neither country saw fit to take the profit out of war production. In trying to remedy the situation and limit the excess profits due to war production Great Britain took the lead, her tax on excess profits reached a rate of 80% by 1918, while Germany never exceeded a 20% tax on excess profits.

Despite the program each country carried out for the financing of war expenditures, the people did not fail to meet the demands. Whether it was through taxes or loans, the peoples of both nations supported their respective countries with the needed funds. When the German defeat did come, it was not due to a lack of financial support or national loyalty, it came about because of an increasing lack of faith in the military, and of the military,²⁹ and a lack of food and coal for the ensuing winter.³⁰

²⁹Lutz, ed., The Causes of the German Collapse in 1918, p. 97.

³⁰Ibid., p. 122, and Prince Louis Ferdinand, Memoirs of The Rebel Prince, (Chicago, 1952), p. 43.

CHAPTER V

EPILOGUE: THE SECOND WORLD WAR

In September, 1939, the governments of Europe were once again faced with war, the Second World War. In this war, finance was to play a role similar to that which it had played in the First World War. This time, however, there was a noticeable difference in the speed and the means with which the financial problems were approached and acted upon. Both Great Britain and Germany had gained considerable knowledge from the financial experiences of the First World War.

The financial experiences of Great Britain and Germany in the First World War determined to a great extent their attitudes and actions in the financing of the Second World War. At the time of the outbreak of the Second World War in the fall of 1939, Germany had in operation a system for the regulation of her existent war economy and for the financing of her anticipated war expenditures. Great Britain, while not geared to a war economy, had made definite preparations for war financing and was able to establish by the fall of 1940 a system of financing which, with minor modifications, carried her through the war.

In Germany after World War I, the governmental administrative functions had been changed in favor of a central administration. And after the rise of the Nazi government, a regime unhindered by the rules of a constitutional government, no regard was given to the

traditions and anti-central tendencies of the states. This war too, was to be a war between a democratic and a non-democratic government.

In the immediate pre-war years, the Nazi government had attained such a degree of control over wages, prices, and investments that few changes were deemed necessary in either the laws governing credit or the existing tax policy. By means of the decree of March 4, 1934, the Nazis had reorganized the stock exchanges in such a manner that only new issues of stock representing businesses which would serve the needs of a war economy were permitted.¹ The decree of March 29, 1934 required that corporations declaring dividends in excess of the previous year invest the increase, so far as it exceeded 6%, in public loans.² These limitation laws were enacted in order to facilitate governmental financing, for by stimulating the corporations to finance capital requirements out of profits, the influence of the stock exchanges as a politically disturbing factor could be eliminated.

On December 5, 1934, a new bank and credit law was initiated. This decree established a supervisory board with control over all banks and credit institutions by means of licensing, supervision of audits, credit regulation, and in emergency situations, action on behalf of these institutions.³ Thus the Nazis established a

¹Maxine Y. Sweezy, The Structure of the Nazi Economy (Cambridge, Mass., 1941), pp. 141-144.

²Ibid., p. 131.

³Ibid., pp. 134-137.

centralized control over the capital and money markets, a control which they exercised for five years before the actual outbreak of war.

Immediately upon the outbreak of war, September, 1939, Germany instituted the War Economy Decree which increased the income tax by 50% and raised the corporation tax on corporate incomes of over 100,000 RM to 40%.⁴ In 1941, the excess profits tax was introduced and ran concurrently with the corporation tax. This 1941 action established an effective tax rate on excess income over the 1938 base at from 70% to 90%.⁵

* * *

In Great Britain, due to the existence of a democratic form of government, such an effective program was not possible until the actual outbreak of hostilities. In fact, one source states that the British public was not ready for the tax program desired by many within the government until the end of the "phoney war" when the German forces invaded the Netherlands and Belgium.⁶ At that time, the summer 1940, a new government took office and introduced a tax program which endured with few changes throughout the remainder of the war. The July, 1940 supplementary budget and subsequent budgets increased taxation to the point of absorbing all of the excess

⁴Ibid., pp. 152-154.

⁵H. W. Singer, "The German War Economy, VI," The Economic Journal, LII (1942), p. 202.

⁶R. S. Sayers, Financial Policy 1939-45 (London, 1956), p. 44.

purchasing power. The income and surtax were raised immediately, as was the excess profits tax which was increased to 100%. Withholding of the income tax from wages and salaries was made compulsory, and a purchase tax to control the consumption of goods was introduced.⁷

In the 1941 budget, a system of forced savings was introduced. The amount to be collected and placed in the forced savings account was determined on a graduated basis, the percentage being highest among the low income groups and almost negligible in the higher income brackets. The savings accumulated by individuals under this program were to be returned to the individual at the end of the war when the government no longer needed the funds and when consumer luxury goods would once again be available.⁸

A similar savings program was utilized by Germany in order to obtain funds from wage and salary earners. The amount saved under the "iron savings" program was to be returned a year after the termination of hostilities. These two similar programs while producing almost negligible amounts for war financing, did help to limit consumption and to curb inflation by limiting the amount available to the worker for spending.⁹ These programs also won a great deal of public support,

⁷ Ibid., pp. 46-49

⁸ Ibid., pp. 80-85.

⁹ H. W. Singer, "The German War Economy, V," The Economic Journal, LII (1942), p. 33.

particularly among the lower income groups, in that they provided for a partial return of the war contributions.

Following is a summary of the Second World War financing operations as carried on by Great Britain and Germany.

GREAT BRITAIN

Tax Source: (in percent) ¹	1938	1939	1940	1941	
Customs & Excise	38.47	38.98	34.30	31.54	
Income & surtax	42.35	41.83	39.87	34.58	
National defense contributions	1.71	2.86	1.74	1.07	
Excess profits duty	-0-	-0-	3.18	9.85	
Death duties	8.91	7.86	5.72	4.11	
War damage premiums	-0-	-0-	-0-	3.50	
Motor vehicle duties	4.00	3.47	2.68	1.77	
Stamp duties	2.40	1.94	1.01	.65	
Post office surplus	1.26	.82	1.37	1.17	
War risk insurance premiums		1.43	8.97	11.15	
Other	.90	.81	1.16	.61	
	*	*	*		
Total tax income, in millions pounds sterling	876	980	1,382	2,143	
				Total	
Tax Source: (in percent)	1942	1943	1944	1945	1939-1944
Customs & Excise	33.20	32.50	33.35	33.45	33.35
Income & surtax	35.93	38.79	41.48	46.68	38.56
National defense contributions	1.05	1.08	1.07	1.04	1.27
Excess profits duty	12.41	14.84	14.78	13.58	11.27
Death duties	3.67	3.18	3.28	3.64	4.05
War Damage premiums	2.58	1.78	1.50	1.19	1.82
Motor vehicle duties	1.25	.88	.86	1.07	1.47
Stamp duties	.62	.56	.52	.70	.73
Post office surplus	1.21	1.18	1.20	1.13	1.18
War risk insurance Premiums	7.76	4.98	1.78	.43	5.87
Other	.32	.22	.18	.19	.43
	*	*	*		
Total tax income, in millions pounds sterling	2,563	3,052	3,262	3,265	13,382
	*	*	*		
Percentage of expenditures covered by:					
Taxation & other income				13,649	38.58%
Borrowing & Lend Lease ²				21,732	61.42%

¹The figures from which these percentages are computed appear in Sayers, Financial Policy 1939-45, p. 493.

²Lend Lease according to Sayers, Financial Policy 1939-45, p.375, equalled 7,444 millions pounds sterling. Borrowing according to the Bank for International Settlements, Fourteenth Annual Report, p. 180, and the Fifteenth Annual Report, p. 74, equalled 14,288 millions pounds sterling.

GERMANY

Tax Source: (in percent) ¹	1938	1939	1940	1941
Customs	11.39	7.20	5.07	3.58
Excise	18.35	18.64	20.29	20.20
Personal income tax	34.18	34.75	38.77	42.67
Property tax	2.53	1.69	2.17	1.96
Turnover tax	21.52	15.68	14.13	13.68
Corporation tax	15.19	13.56	12.68	16.61
Other ²	(3.16)	8.48	6.89	1.30
	*	*	*	

Total tax income, in billions Reichsmarks	15.8	23.6	27.6	30.7
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Tax Source: (in percent)	1942	1943	1944 ³	Total 1939-1943
Customs	4.46	1.88		4.28
Excise	12.38	18.81		17.64
Personal income tax	31.43	42.01		37.68
Property tax	1.73	2.19		1.95
Turnover tax	10.40	13.17		13.10
Corporation tax	17.08	21.00		16.47
Other	22.52	.94		8.88
	*	*	*	

Total tax income, in billions Reichsmarks	40.4	31.9	28.5	157.2
	*	*	*	

Percentage of expenditures covered by:			
Taxation		182.7	26.59%
Borrowing		270.8	39.42%
Indemnities from conquered nations and secret borrowings		233.5	33.99%

¹The figures from which these percentages are computed appear in Richard W. Lindholm, "German Finance in World War II," The American Economic Review, XXXVII (1947), p. 127.

²Includes war contributions, redemption of real estate tax, and is minus the quotas to the states.

³The breakdown of tax receipts for fiscal year 1944 is not available.

In comparing the financing programs of the First and Second World Wars, the increase in expenditure coverage by tax and other revenue is particularly conspicuous. This factor is not only true of Great Britain which increased its expenditure coverage from 28.44% to 38.58%, but also of Germany which increased its expenditure coverage from 13.10% to 26.59%.

In the Second World War, the personal income tax provided the largest single revenue return in the budgets of both countries. In Germany the personal income tax yielded a percentage of the total tax revenue similar to that of Great Britain. This factor is particularly outstanding when one considers that Germany had no effective personal income tax in her First World War financing program.

In the Second World War experience, the budgetary returns of both countries indicate a fairly stable monetary condition and indicate that inflation was minimal. Through their varied tax and borrowing programs the governments of both countries were successful in drawing off the excess purchasing power of the public. This success while perhaps accomplished through an extremely regulated financial system, was a result of the experience gained in the First World War when regulation, if initiated at all, was initiated after a non-interference policy proved inadequate. Financial measures which had proven necessary in the First World War were either in operation or were introduced shortly after the outbreak of the Second World War.

In the Second World War financing programs of both Great Britain and Germany, effective and quite successful efforts were made toward restricting inflation, directing investment, and limiting consumption. And once again, as in the First World War, the peoples of both countries proved adequate in meeting their government's financial demands for the war effort.

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