

the unargued judgments of the leading authorities on railway economics with respect to the question whether a certain abstract case may be taken as typical of the actual facts. This is just one of those matters which are amenable to the Aristotelian doctrine that we ought to attend to the unargued pronouncements of the practically wise, who have acquired by experience a certain power of mental vision.

Here arises the question : How far do our author's theories belong to the category of practical wisdom, or to that higher kind of science which the philosopher distinguishes as grand and wonderful and difficult, but not useful for human purposes ? Mathematical economics are certainly useful to some extent ; but does the further elaboration which that study has received in this treatise imply a correspondingly large contribution to the Art of Political Economy ? The analogy of mathematical physics does not help us to answer this question ; the calculus of utility and probability is something so peculiar and unique. " Ai posteri L'ardua sentenza ! "

*The Economy and Finance of the War.* Being a discussion of the real costs of the war and the way in which they should be met. By A. C. PIGOU. (London : Dent, 1916. Pp. 96.)

THE author of *Wealth and Welfare* here deals principally with the first of these subjects, and only incidentally with the second. The costs which he discusses are economic in a strict sense : " the costs that come into relation with governmental expenditure and the Chancellor of the Exchequer's Budget." In this technical investigation he displays a talent which is required in economics even more than in other sciences, the power of penetrating beneath the surface of appearances, discerning unobvious truths and exposing popular fallacies. For example, it will be a surprise to many readers to learn that a married soldier with dependants to whom separate allowances must be paid does *not* involve more real cost to the nation than a single soldier with no such dependants. This is one of several startling propositions which will probably appear at first sight to the general reader foolishness, and even to the expert a stumbling-block. They would certainly have so appeared if propounded at the beginning of the war. But since then the attention of students has been directed to the economics of war by many writers, notably Professor Pigou himself in the *Contemporary Review* of 1915 (noticed in the *ECONOMIC JOURNAL*, March

and June, 1916, among "Recent Periodicals"). For instance, in the article to which we refer we have read something like the following passage, which is taken from the work before us :—"The services of lawyers, of highly-skilled gardeners, of poets, of men learned in the ancient languages, of musicians, of young men medically unfit or with conscientious objections to combatant service, of midwives, of women with special skill as children's nurses, of ballet dancers and music-hall artists, are much less valuable to Government than they are to private employers." A similar theory, with corresponding practical deductions, may be found in Mr. Bickordike's article, *On Paying for War by Loans* in the *ECONOMIC JOURNAL* for September, 1915.

In this connection we may observe that Professor Pigou is singular in forbearing to support his doctrines by authority. The volume is almost a "record" in that it does not, so far as we have noticed, mention a single other economic writer. The author, no doubt, thought that his little book would be more attractive to the public if not encumbered with allusions to economic literature.

His simple and direct method of exposition is certainly very effective. Very striking too are the propositions enounced, of which we subjoin some examples. We have preserved the form of these specimens almost intact; yet it is to be feared that they have suffered by being torn from their contexts, which we have indicated and advise our readers to consult.

To pay a man, whether he be a member of Parliament, or a contractor, or a workman, much more than his services are worth, this, undesirable though it may be, does not involve any waste of national resources (21). If museums and art galleries are shut down and the saving in respect of their staffs are utilised by the State, the real costs to the public include not only the services represented by this saving, but also the services of the capital invested in these institutions, the loss of which is balanced by no service to the Government (34). The result of closing scientific and artistic exhibitions in a "piecemeal" fashion, without taxation of substitutes (which was presumably the state of things at the time of writing, before the Budget of 1916), might be merely to increase correspondingly the demand for picture palaces and public-houses (39). So import duties, instead of causing people to employ less capital and labour in respect of the needs which they used to satisfy by importation, may cause them to satisfy their needs through the manufacture of identical or similar things in a more expensive manner at home (39). By economising in respect of commodities which obey the law of

diminishing returns we enable ourselves and others to obtain so much of these as we continue to consume at a diminished cost of capital and labour—a consideration of special importance in time of war when demand for certain classes of goods is urgent and before supply is adapted to demand (35, 36). The imposition of duties is a clumsy method of bringing about economies compared with the method of “rationing,” at least with respect to articles which form part of the staple food of the poor (40). The line of cleavage between present and future resources does not coincide with the distinction between taxing and borrowing; among other reasons, heavy taxation of the poor may impair personal capital (47 *et seq.*). The payments of interest on an internal national loan afford no evidence of any *net* burden to the nation as a whole (49). By impeding investments our Government has *pro tanto* encouraged the people to meet the demands of war by drawing on the future rather than on the present (50). The real cost of foreign imports in terms of domestic produce has risen in a *smaller* degree in Germany than it has done in England (p. 56). Whereas by cutting down unnecessary imports we may direct the capital and labour employed on the corresponding exports from the work of indirectly yielding imported luxuries to that of yielding imported shells, we may effect a similar economy if we divert resources from making commodities for home use and turn them into making more commodities for export (60).

As we interpret, these propositions, like most of the abstract truths of political economy, are to be regarded only as first approximations, to be supplemented in practice by concrete circumstances. “Apart from administrative difficulties,” a clause which Professor Pigou introduces with respect to his preference for the policy of “rationing,” is often to be understood. For instance, we agree with our author that the payment of interest on a national debt involves no *net* loss to the community as a whole; not the kind and amount of loss which popular writers and even respectable economists take for granted. But it is not meant to deny that to raise and pay for a large loan involves “administrative difficulties” and secondary consequences which may prove serious. The very fact that the public does not accurately distinguish between a foreign and a home loan is a circumstance not to be ignored by the financier who, as Professor Henry Adams well observes, should attend to the psychology of the tax-payer. This kind of consideration would not be all on the side of taxation as against borrowing. The facility of raising large sums without

compulsion, the freedom from vexatious interference with the course of industry, are on the other side.

We trust that our author has taken account of all these psychological considerations when in more than one context he urges present effort and sacrifice. Thus he advises resort to "current capital and labour" in preference to parting with some of the American securities which we hold. He italicises the dictum: "*It is in the national interest that the war should be financed in the utmost possible measure by the utilisation of current capital and labour, and that our saleable property—gold and securities alike—should be rigorously conserved*" (64). With reference to the choice between taxes and loans, he concludes that "the ratio in which the war is financed with money borrowed from people with large incomes should be much diminished, and the ratio in which it is financed with money collected from them under some form of progressive taxation should be much increased" (83).

The premises by which this conclusion, especially the latter part of it, is deduced are of extreme interest. There is in favour of distributing the burden of taxation not in the proportion normal to a regime of peace, but in a proportion less burdensome to the poor, *first* the consideration that the poor will be placed in consequence of the war in a worse position comparatively. The high rate of interest and the circumstance that its payment was contracted during a period of monetary inflation will secure to the capitalists a larger share of the national dividend; and the total will be smaller owing to the destruction of capital, the deficiency of tools and machinery (73 *et seq.*). Moreover, the currency inflation which borrowing from banks for war purposes is likely to produce will inflict additional hardship on the poor, whose incomes are not likely to rise as rapidly as prices. [This hardship, as we understand, would exist only during the war. The subsequent depression, too, will not, in Professor Pigou's judgment, prove, as many apprehend, an "economic disaster" (84)—provided that we can meet the present financial requirements of the war.] The case for the poor is further strengthened by the circumstance, already mentioned, that their efficiency is apt to be impaired by heavy taxation. But has the author given due weight to the counterbalancing circumstance, that by reducing the income of the rich you diminish their power of saving—their objective means, for as to their motives, account is taken of these, as we understand, among the considerations which follow?

So far we have been on the solid ground of economic cost.

But now we ascend to "values outside the economic sphere" (1), when, in order to determine the adjustment of taxation, we take account of the "subjective burden of suffering and sacrifice." Let it be granted that the distribution of the objective burden by the system of taxation adopted in peace-time was fair and proper. "Then suppose the amount of objective burden all round to be quadrupled. There is reason to believe that a quadrupling of the objective burden on a poor man will increase the subjective burden of sacrifice and suffering laid on him in a proportion higher than that in which the quadrupling of the objective burden on a rich man raises his subjective burden." It follows that the proportionate share in which the expenses of government when greatly enlarged are borne by the rich ought not to be the same as before, but greater (78).

So far as we understand, the argument would hold good in whichever of its variant forms we accept the doctrine of "sacrifice" as the criterion of proper taxation. The argument is clinched by an appeal to the doctrine in that sense which has been called in this Journal *minimum sacrifice*. "Other things being equal, the absorption of a pound from a rich man strikes at much less urgent wants, and, therefore, causes much less suffering and real sacrifice, than the absorption of a pound from a poor man. It follows that the aggregate amount of sacrifice involved in providing any given revenue would be at a minimum if the whole of the funds required were lopped off the few largest incomes enjoyed in the country." The practical reasons which deter economists from advocating this system in general are not valid as regards "special taxes levied on an exceptional occasion for the purpose of financing an unprecedented war." Thus a much larger proportion of the objective burden which the present war imposes upon the community should be laid upon the rich than it is proper to lay upon them for normal peace expenditure.

An argument involving the conception of "aggregate amount of sacrifice" as a quantity to be minimised—or the corresponding positive quantity, a maximum of aggregate satisfaction—may appear to some metaphysicians nugatory. But we submit that the essence of the reasoning—whatever alterations in wording and emphasis may be desired—commends itself to practical good sense. We are, indeed, far from ignoring the danger of applying such doctrines to ordinary practice. But we think that Professor Figou has guarded against that danger by prescribing only for the exceptional cases of an unprecedented war. Nor do we find, in his concern to minimise the privation of the majority, any trace of

that materialism which *littérateurs* like Carlyle and Ruskin have attributed to cognate ways of thinking. Witness this estimate of the cost of war in the larger and truer sense of the term : " Compared with what this war has cost and is costing in values outside the economic sphere—the shattering of human promise, the accumulated suffering in wounds and disease of many who have gone to fight, the accumulated degradation in thought and feeling of many who have remained at home—compared with these things the economic cost is, to my mind, trivial and insignificant."

## ECONOMISTS ON WAR

- Händler und Helden.* Von WERNER SOMBART. (Munich : Duncker and Humblot. 1915. Pp. 145.)
- The Neutrality of the United States in Relation to the British and German Empires.* By J. SHIELD NICHOLSON. (London : Macmillan & Co. 1915. Pp. 92. 6d.)
- An Economic Interpretation of the War.* (Reprinted from *Problems of Readjustment after the War.*) By EDWIN R. A. SELIGMAN. (New York : Appleton. 1915. Pp. 72.)
- Les Causes et les Conséquences de la Guerre.* Par YVES GUYOT. (Paris : Alcan. 1915. Pp. 416.)

THE Editor has been well advised in arranging that this set of recent publications relating to the present war and war in general should be brought together under one view. The judgments pronounced by eminent economists of different nationalities are calculated to be mutually corrective. For instance, the opinion of Professor Seligman that the present war is mainly due to the opposition between the material interests of Germany and England may be set off against the opinion of Professor Sombart that the war is mainly due to the opposition between those nations in character and mentality (*Anschauungswelt*). The "incomparable superiority" of the German heroic spirit over the English mercantile character forms the burden of Professor Sombart's theme. He supports his thesis by a deft use of English literature; taking now More's *Utopia*—especially some practices of war which a recent editor of the *Utopia* describes as "repellent to us"—now Herbert Spencer's philosophy, as typical of English thought and character. His general view of that character as utilitarian, or in his phrase "individualistic-eudæmonistic," must, we think, be admitted. It is an impeachment which we, for our part, own with