

CHAPTER II

EUROPE BEFORE THE WAR

BEFORE 1870 different parts of the small continent of Europe had specialized in their own products; but, taken as a whole, it was substantially self-subsistent. And its population was adjusted to this state of affairs.

After 1870 there was developed on a large scale an unprecedented situation, and the economic condition of Europe became during the next fifty years unstable and peculiar. The pressure of population on food, which had already been balanced by the accessibility of supplies from America, became for the first time in recorded history definitely reversed. As numbers increased, food was actually easier to secure. Larger proportional returns from an increasing scale of production became true of agriculture as well as industry. With the growth of the European population there were more emigrants on the one hand to till the soil of the new countries, and, on the other, more workmen were available in Europe to prepare the industrial products and capital goods which were to maintain the emigrant populations in their new homes, and to build the railways and ships which

were to make accessible to Europe food and raw products from distant sources. Up to about 1900 a unit of labor applied to industry yielded year by year a purchasing power over an increasing quantity of food. It is possible that about the year 1900 this process began to be reversed, and a diminishing yield of Nature to man's effort was beginning to reassert itself. But the tendency of cereals to rise in real cost was balanced by other improvements; and—one of many novelties—the resources of tropical Africa then for the first time came into large employ, and a great traffic in oil-seeds began to bring to the table of Europe in a new and cheaper form one of the essential foodstuffs of mankind. In this economic Eldorado, in this economic Utopia, as the earlier economists would have deemed it, most of us were brought up.

That happy age lost sight of a view of the world which filled with deep-seated melancholy the founders of our Political Economy. Before the eighteenth century mankind entertained no false hopes. To lay the illusions which grew popular at that age's latter end, Malthus disclosed a Devil. For half a century all serious economical writings held that Devil in clear prospect. For the next half century he was chained up and out of sight. Now perhaps we have loosed him again.

What an extraordinary episode in the economic

progress of man that age was which came to an end in August, 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighboring office of a bank

for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice.

It will assist us to appreciate the character and consequences of the Peace which we have imposed on our enemies, if I elucidate a little further some of the chief unstable elements, already present when war broke out, in the economic life of Europe.

I. *Population*

In 1870 Germany had a population of about 40,000,000. By 1892 this figure had risen to 50,-

000,000, and by June 30, 1914, to about 68,000,000. In the years immediately preceding the war the annual increase was about 850,000, of whom an insignificant proportion emigrated.¹ This great increase was only rendered possible by a far-reaching transformation of the economic structure of the country. From being agricultural and mainly self-supporting, Germany transformed herself into a vast and complicated industrial machine, dependent for its working on the equipoise of many factors outside Germany as well as within. Only by operating this machine, continuously and at full blast, could she find occupation at home for her increasing population and the means of purchasing their subsistence from abroad. The German machine was like a top which to maintain its equilibrium must spin ever faster and faster.

In the Austro-Hungarian Empire, which grew from about 40,000,000 in 1890 to at least 50,000,000 at the outbreak of war, the same tendency was present in a less degree, the annual excess of births over deaths being about half a million, out of which, however, there was an annual emigration of some quarter of a million persons.

To understand the present situation, we must apprehend with vividness what an extraordinary

¹ In 1913 there were 25,843 emigrants from Germany, of whom 19,124 went to the United States.

center of population the development of the Germanic system had enabled Central Europe to become. Before the war the population of Germany and Austria-Hungary together not only substantially exceeded that of the United States, but was about equal to that of the whole of North America. In these numbers, situated within a compact territory, lay the military strength of the Central Powers. But these same numbers—for even the war has not appreciably diminished them¹—if deprived of the means of life, remain a hardly less danger to European order.

European Russia increased her population in a degree even greater than Germany—from less than 100,000,000 in 1890 to about 150,000,000 at the outbreak of war;² and in the year immediately preceding 1914 the excess of births over deaths in Russia as a whole was at the prodigious rate of two millions per annum. This inordinate growth in the population of Russia, which has not been widely noticed in England, has been nevertheless one of the most significant facts of recent years.

The great events of history are often due to secular changes in the growth of population and

¹ The net decrease of the German population at the end of 1918 by decline of births and excess of deaths as compared with the beginning of 1914, is estimated at about 2,700,000.

² Including Poland and Finland, but excluding Siberia, Central Asia, and the Caucasus.

other fundamental economic causes, which, escaping by their gradual character the notice of contemporary observers, are attributed to the follies of statesmen or the fanaticism of atheists. Thus the extraordinary occurrences of the past two years in Russia, that vast upheaval of Society, which has overturned what seemed most stable—religion, the basis of property, the ownership of land, as well as forms of government and the hierarchy of classes—may owe more to the deep influences of expanding numbers than to Lenin or to Nicholas; and the disruptive powers of excessive national fecundity may have played a greater part in bursting the bonds of convention than either the power of ideas or the errors of autocracy.

II. *Organization*

The delicate organization by which these peoples lived depended partly on factors internal to the system.

The interference of frontiers and of tariffs was reduced to a minimum, and not far short of three hundred millions of people lived within the three Empires of Russia, Germany, and Austria-Hungary. The various currencies, which were all maintained on a stable basis in relation to gold and to one another, facilitated the easy flow of

capital and of trade to an extent the full value of which we only realize now, when we are deprived of its advantages. Over this great area there was an almost absolute security of property and of person.

These factors of order, security, and uniformity, which Europe had never before enjoyed over so wide and populous a territory or for so long a period, prepared the way for the organization of that vast mechanism of transport, coal distribution, and foreign trade which made possible an industrial order of life in the dense urban centers of new population. This is too well known to require detailed substantiation with figures. But it may be illustrated by the figures for coal, which has been the key to the industrial growth of Central Europe hardly less than of England; the output of German coal grew from 30,000,000 tons in 1871 to 70,000,000 tons in 1890, 110,000,000 tons in 1900, and 190,000,000 tons in 1913.

Round 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. The increasing pace of Germany gave her neighbors an outlet for their products, in exchange for which the enterprise of the German merchant supplied them with their chief requirements at a low price.

The statistics of the economic interdependence of Germany and her neighbors are overwhelming. Germany was the best customer of Russia, Norway, Holland, Belgium, Switzerland, Italy, and Austria-Hungary; she was the second best customer of Great Britain, Sweden, and Denmark; and the third best customer of France. She was the largest source of supply to Russia, Norway, Sweden, Denmark, Holland, Switzerland, Italy, Austria-Hungary, Roumania, and Bulgaria; and the second largest source of supply to Great Britain, Belgium, and France.

In our own case we sent more exports to Germany than to any other country in the world except India, and we bought more from her than from any other country in the world except the United States.

There was no European country except those west of Germany which did not do more than a quarter of their total trade with her; and in the case of Russia, Austria-Hungary, and Holland the proportion was far greater.

Germany not only furnished these countries with trade, but, in the case of some of them, supplied a great part of the capital needed for their own development. Of Germany's pre-war foreign investments, amounting in all to about \$6,250,000,000, not far short of \$2,500,000,000 was invested in Russia, Austria-Hungary, Bulgaria, Roumania,

and Turkey.¹ And by the system of "peaceful penetration" she gave these countries not only capital, but, what they needed hardly less, organization. The whole of Europe east of the Rhine thus fell into the German industrial orbit, and its economic life was adjusted accordingly.

But these internal factors would not have been sufficient to enable the population to support itself without the co-operation of external factors also and of certain general dispositions common to the whole of Europe. Many of the circumstances already treated were true of Europe as a whole, and were not peculiar to the Central Empires. But all of what follows was common to the whole European system.

III. *The Psychology of Society*

Europe was so organized socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred

¹Sums of money mentioned in this book in terms of dollars have been converted from pounds sterling at the rate of \$5 to £1.

the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the Capitalist System. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a Society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the Pyramids of Egypt, the work of labor which was not free to consume in immediate enjoyment the full equivalent of its efforts.

Thus this remarkable system depended for its growth on a double bluff or deception. On the one hand the laboring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and

the well-established order of Society into accepting, a situation in which they could call their own very little of the cake that they and Nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. The duty of "saving" became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was only in theory,—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.

In writing thus I do not necessarily disparage the practices of that generation. In the unconscious recesses of its being Society knew what it was about. The cake was really very small in proportion to the appetites of consumption, and no one, if it were shared all round, would be

much the better off by the cutting of it. Society was working not for the small pleasures of to-day but for the future security and improvement of the race,—in fact for “progress.” If only the cake were not cut but was allowed to grow in the geometrical proportion predicted by Malthus of population, but not less true of compound interest, perhaps a day might come when there would at last be enough to go round, and when posterity could enter into the enjoyment of *our* labors. In that day overwork, overcrowding, and underfeeding would have come to an end, and men, secure of the comforts and necessities of the body, could proceed to the nobler exercises of their faculties. One geometrical ratio might cancel another, and the nineteenth century was able to forget the fertility of the species in a contemplation of the dizzy virtues of compound interest.

There were two pitfalls in this prospect: lest, population still outstripping accumulation, our self-denials promote not happiness but numbers; and lest the cake be after all consumed, prematurely, in war, the consumer of all such hopes.

But these thoughts lead too far from my present purpose. I seek only to point out that the principle of accumulation based on inequality was a vital part of the pre-war order of Society and of progress as we then understood it, and to emphasize that this principle depended on unstable

psychological conditions, which it may be impossible to recreate. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the laboring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation.

IV. *The Relation of the Old World to the New*

The accumulative habits of Europe before the war were the necessary condition of the greatest of the external factors which maintained the European equipoise.

Of the surplus capital goods accumulated by Europe a substantial part was exported abroad, where its investment made possible the development of the new resources of food, materials, and transport, and at the same time enabled the Old World to stake out a claim in the natural wealth and virgin potentialities of the New. This last factor came to be of the vastest importance. The Old World employed with an immense prudence the annual tribute it

was thus entitled to draw. The benefit of cheap and abundant supplies, resulting from the new developments which its surplus capital had made possible, was, it is true, enjoyed and not postponed. But the greater part of the money interest accruing on these foreign investments was re-invested and allowed to accumulate, as a reserve (it was then hoped) against the less happy day when the industrial labor of Europe could no longer purchase on such easy terms the produce of other continents, and when the due balance would be threatened between its historical civilizations and the multiplying races of other climates and environments. Thus the whole of the European races tended to benefit alike from the development of new resources whether they pursued their culture at home or adventured it abroad.

Even before the war, however, the equilibrium thus established between old civilizations and new resources was being threatened. The prosperity of Europe was based on the facts that, owing to the large exportable surplus of foodstuffs in America, she was able to purchase food at a cheap rate measured in terms of the labor required to produce her own exports, and that, as a result of her previous investments of capital, she was entitled to a substantial amount annually without any payment in return at all. The second of these factors then seemed out of danger, but, as a result

of the growth of population overseas, chiefly in the United States, the first was not so secure.

When first the virgin soils of America came into bearing, the proportions of the population of those continents themselves, and consequently of their own local requirements, to those of Europe were very small. As lately as 1890 Europe had a population three times that of North and South America added together. But by 1914 the domestic requirements of the United States for wheat were approaching their production, and the date was evidently near when there would be an exportable surplus only in years of exceptionally favorable harvest. Indeed, the present domestic requirements of the United States are estimated at more than ninety per cent of the average yield of the five years 1909-1913.¹ At that time, however, the tendency towards stringency was showing itself, not so much in a lack of abundance as in a steady increase of real cost. That is to say, taking the world as a whole, there was no deficiency of wheat, but in order to call forth an adequate

¹ Even since 1914 the population of the United States has increased by seven or eight millions. As their annual consumption of wheat per head is not less than 6 bushels, the pre-war scale of production in the United States would only show a substantial surplus over present domestic requirements in about one year out of five. We have been saved for the moment by the great harvests of 1918 and 1919, which have been called forth by Mr. Hoover's guaranteed price. But the United States can hardly be expected to continue indefinitely to raise by a substantial figure the cost of living in its own country, in order to provide wheat for a Europe which cannot pay for it.

supply it was necessary to offer a higher real price. The most favorable factor in the situation was to be found in the extent to which Central and Western Europe was being fed from the exportable surplus of Russia and Roumania.

In short, Europe's claim on the resources of the New World was becoming precarious; the law of diminishing returns was at last reasserting itself, and was making it necessary year by year for Europe to offer a greater quantity of other commodities to obtain the same amount of bread; and Europe, therefore, could by no means afford the disorganization of any of her principal sources of supply.

Much else might be said in an attempt to portray the economic peculiarities of the Europe of 1914. I have selected for emphasis the three or four greatest factors of instability,—the instability of an excessive population dependent for its livelihood on a complicated and artificial organization, the psychological instability of the laboring and capitalist classes, and the instability of Europe's claim, coupled with the completeness of her dependence, on the food supplies of the New World.

The war had so shaken this system as to endanger the life of Europe altogether. A great part of the Continent was sick and dying; its population was greatly in excess of the numbers for

which a livelihood was available; its organization was destroyed, its transport system ruptured, and its food supplies terribly impaired.

It was the task of the Peace Conference to honor engagements and to satisfy justice; but not less to re-establish life and to heal wounds. These tasks were dictated as much by prudence as by the magnanimity which the wisdom of antiquity approved in victors. We will examine in the following chapters the actual character of the Peace.