Chapter I

The Economic Situation Preceding The War

Unparalleled industrial revolution since 1880 - New era of power - Forger in transportation - Opening of new resources - Gains in mechanics and chemistry - New business organization - upheaval in education - Evolution of credit - German growth part of world wide movement - Relative progress of leading nations - Characteristics of German improvement - Causes underlying it - Effect of industrial success on German foreign policy - Direct cause of the war.

1. Even though the immediate causes of the European War may have been dynastic ambition, exaggerated nationalism, and lust for power, the ultimate causes are undoubtedly to be found in economic conditions. However active these immediate influences may have been, they were limited, or guided, sometimes unconsciously, by the underlying economic forces. In the period since 1880, commercial rivalries have not been so much struggles for actual existence as they have been races against others for the foremost place in an unparalleled industrial development going on in many countries. It was the period of a worldwide industrial renaissance, without doubt the
Bank of England, places in organization of credit, 70, 74; banking reserves, 75; and stock exchange, 81; saved the day in the crisis, 84, 89; suspension of Bank Act, 87, 88; accounts of, 70; location of reserves on, 103, 329; small notes of, 94, 100; French criticism of, 99; in time of stress, 106; Soundness of, 89, 111, 114; increase of notes of, 119; superior to Banks of France, 178; compared with Reichsbank, 269.

Bank of France, 144; notes of, follow discounts, 147-149; function of reserves in, 150; notes vs. cheques, 162-164; suspension specie fragment, 164-165; reliance on, in crisis, 165; increase of loans, 166-168; reduction of monometal paper, 168; banks and the bourse, 169-170; vast increase in notes of, 172; advances to state, 173; various limits to note issuance, 174; Soundness of, 175; monetary and fiscal confusion, 176; contrasted with Banks of England, 178; effort of retaining gold, 180; depreciation of notes of, 181-184, 187

Bank, Imperial, of Germany,

contrasted with Banks of England, 178; control over gold, 203; control over other banks, 204; under Imperial control, 205; organization of, 205-206; contingent, 207; cover for notes, 207, 227; note issues of, 208, 230; function of, 208; business of, 209; transfers, 210; lending power; widening, 227; loans to government, 228; reserves of, 229; pressure on, 229-232; depreciation of notes, 233; campaign for gold, 234-236; inflation of credit if, 268; suspension of gold payments, 221.
Banking, reserves, 150, 292, Germany, 204-205; foreign, 76; in United States, 11.

Bayer, 19.

Belgium, 20, 51, 77, 158, 158, 241; German notes in, 232.

Bills, see Exchange, Treasuries.

Bill brokers, 72, 74, 83.

Bonn, M. J., 267 n. 1, 270 n. 1.


Banks, joint stock, English, 73, 81, 83, 91, 94, 97; French, 145-147; German, 204, 212.
Caillault, 153
Camersons, 153, n, 154.
Canada, 102, 103, 109, 329
Capital, mobility of, 110; estimation of, 49, 50, 238, 240, 268; and credit, 444
Checks, in England, 87, 95, n, 94, 99; in France, 162-164; in Germany, 210, 232; in United States, 11
Chemistry, 7
Chronology of war, 79
Clearing-house, 10; banks, 92; loan certificates, 1297, 301
Coal, 18, 52, 159
Combe, 52, 159
Consumption, superfluous, 44, 48; limiting war, 53; war and, 306
German, 241
Cotton, 309-312; Trading Corporation, 310; Pool, 311
Credit, rise of 10; and war, 39, 84, 283; based on goods, 40, 45, 51, 68, 111, 284; war carried on by, 41, 53; why granted, 41; by a bank, 42; of a government, 43, 114, 138, 137; and capital, 44; and money, 45; of a State depends on productive power, 57, 114; not limited by money, 58, 60-63, 284; a reversion to tractors, 60; redemption of, 61; has tasted, 63; how affected by imports of gold, 63; sufficiency break-down of, 64, 69, 80; sufficiency, money, 67; international, 69; comparative study of, 70, 142, 175; morality of, in war time, 104, 114; gives time for liquidation, 112; and inflation, 64, 117, 148, 218, 224, 230, 243, 348, 3-353; function of, in a crisis, 161; independence of, 279, 280
Credit in England, 70; expansion by Bank of England, 75; little inflation, 120; soundness of 121; as to government borrowing, 133, 137; London as a centre of, 324, 326, 327, 345. 

Crushed in Balkan war, 155.

Organization of, 144, 167.

Credit in France, 143; expanded in note issues, 148. In The Crisis of 1914, 161, 165; inflation of, 166-168, 172, 173, 175, 176; public and private, 189; and money, 148-149, 176-178, 182, 184.

Weakened by, 190.

Loan Bureau, 213-218.

Credit in Germany, 280; organization of, 205-218; inflation of, 206, 218, 224, 230, 242; shock to, 220; limit to, 157; solvency of, 241, 242, 244, 265-268; pyramiding of, 266; relation to wealth, 239.

System of, 284, 296.

Credit in United States, 278; dependence of, on Europe, 279-281; effect of war on, 284, 292, 296; crisis in, 306; inflation of, 347-352, 351; relation of, to private, 348, 352; working of, 296, 304, 352-361; government, 357, 361; Kriegskredit.

Currency note, English, 88, 92-103, 114.

Credite, 156, n., 157.

Cuba, 307.

Credit market, 320, n.
Darlehnskassen, siehe Loan Burdens.

Debts, burden of: 56, 134; discount future production 113% of Great Britain, 133-141% of France, 155, 191-196% of Germany, 258, 261-271, 276; of United States to Europe, 281.

Deposit currency, 10% English origin 38, 94; function of, 222.

Denmark, 77, 132, 223, 240, 245, 313, 342.

Debt in motion in war, 46, 48, 49, 56; in peace, 47; 57% capital, 49, 56, 238, 240.

Discount houses, 72.

Dyes, 19, 253, 314.
England, see Great Britain.

Education, 8, 9, 26

European War, causes of, 1, 32, 36, 38, 199.

Exchange, bills of exchange, 11, 73, 323, 346, 347; problem in England, 121, 123, 323-324, 326, 341; 180, 186; shipping points of, 122, 251, 323; factors affecting prices of, 125, 324, 336; movement of gold from England, 129, 131; and depreciation of paper money, 125, 131, 185, 248, 255; on Holland, 132, 252, 342-343; on Scandinavia, 132, 252, 342-344; on Switzerland, 132, 252, 342; French, 184-189, 341; German, 349; American, 283, 292, 319-346; South American, 317-319, 344-346; "Dollar", 317, 344-346; on neutrals, 342-344; on Japan, 344; on Spain, 344.

Exhaustion, economic, 52; financial, 55; in Germany, 274-276.
Federal Reserve Banks, 67, 68, 100, 137 n., 337, 349–352, 360

Finance bills, 325
Forwell, H. S., 116 n., 131 n.
Franklin, E. L., 105 n.

Suspension of gold payments, 1841.

France, comparative growth of, 14, 15; weakness of, 36; private banks of, 145–147; provincial banks of, 147; unprepared for war, 152; German intrigue in, 152, 153; relations with Balkans, 152–153, 155; withholding capital from Germany, 154; effect of radicalism in, 155; Franco-Prussian War, 16, 36, 156, 181, 204; indemnity of 1871, 156; effect of war on currency, 158; war and production, 158; re-arming in, 164; moratorium in, 159–162, 164, 165, 167, 168; gold stock in, 171; confusion of monetary and fiscal needs, 176; prices in, 181–182; foreign trade of, 182, 186; foreign exchange of, 184–189, 341; loans in United States of, 188; debt of, 155, 191–196; wealth and income of, 194.

Franco-Prussian War, 16, 36, 156, 181, 204

Finances, public, 54–56; English, 133–142; French, 189–191; German, 257–274.
Germany, early 13; followed in steps of England, 14; progress of 12, 14, 16-22; causes of progress, 23-29; centralization of industry in, 27; an ally of trade, 28; desire of, for foreign markets, 29-30; trade with England, 30-32; exports of, 31, 244.

Colonial policy of, 32; hatred of English, 33; hunger for new territory, 34; industrial success before the war, 35; militarism, 36; borrowing at home, 51, 269-271; railways of, 52; non-recurring tax of 1913, 152, 201; financial mobilization of, 55; intrigue of, in France, 153; lost French capital on Agadir incident, 154.

Preparation of, 198, 200, 205, 213-214; accumulating gold, 201, 203, 233; war chest of, 202; 229; inflation in, 218, 230, 243, 247; effect of war on bond, 220; hoarding in, 221; disturbance to industry in, 222-224, 244.

War loans of, 231, 258-263, 267; debt of, 59, 258, 261-271; repudiation in, 271, 276; notice in Belgium, 222; production of, reduced, 241; income of, 59, 275; wealth of, 238, 275; duration of war, 276; recovery after war, 276.

Prices in, 222, 243-249.

Trade with United States, 244.
Great Britain, first with new technique, 13; growth of 15, 17; trade with Germany, 30, 97, 106; reason for joining in the war, 38; unprepared, 78; foreign investments 83, 76, war crisis of 80; accepting loan of 72; Bank of England's discount house. 72; resort to government paper, 88; moratorium in 86, 91, 109, 113; guarantee to Bank of England, 113; export and imports of, 45, 77, 126; gold redemption in 105; loans of, in United States, 67, 128; war debt of, 133-44; forms of debt, 133; Soundness of her credit, 111, 128; ability to carry debt, 144.

Dislocation of trade, 106.

Gold, Stock of, British, 96 n.; in Bank of England, 103; British control of, 103; in various reserves, 102, 234 n. 132; Stock of, France, 171; German Stock of, 201, 206; 234; campaign for, in Germany, 201; Standard British, 101; Suspension of, payments in various countries, 102, 103; Suspension in France, 164; Suspension in Germany, 209 n. 7221; Pool, in United States, 381-323.

Greece, 155

Havenstein, 259, 274
Helfferich, K., 12 n., 18 n., 22 n., 23, 32 n., 194, 272, 273, 254 n. 2
Hetzeyer, 154.
Hoarding in England, 97; in France, 164; in Germany, 221.
Income, British, 78; France, 194; German, 59, 275
India, 102, 314.

Industrial Revolution, 1; gains of mechanics in 7; of chemistry, 7; changed organization of business, 8; education, 8-9; rise of credit, 10; new technique, 23; common to many countries, 24; relates to cause of war, 24.

Inflation, 64, 115, 117, 118, 126, 148, 218, 230, 243, 247; Britain, 120; French, 166-168, 172, 173, 175, 176, 179; German, 206, 218, 224, 230, 245; American, 347-353, 351.

Italy, 30, 77, 79, 213;
Japan, 109, 344;
Greece, 152.

Krems, 9, 18 n., 91 n., 103 n., 104 n., 109 n., 96 n., 128 n.
Kirkaldy, 278 n., 105 n., 131 n. 2;
Kitchener, 39;
KriegsKRITIK BANKS, 218;
Kronprinzessin Cecilie, S.S., 291, 326;
Kraft, 28 n., 259, 212.

Labor, losses of, 52;
Leroy-Beaulieu, P., 196 n.
Liesse, A., 99, 143 n.
Liebig, 25;
Lloyd-George, 65, 92, 109.
Loan Bureau, German, 213-218, 264-265, 268
really

Lorre, F. L., 127, n. 322 n. 1

Lombard, 207, 209 n. 1, 221.

Mexico, 154
Mittelndroica, 23, 37, 152, 199

Money, paper, 54; quantity of, 55; remedy in a crisis, 65; does not limit credit, 58, 60; credit drawn in terms of, 66; quantity theory of, 116, 248; increase of, in various countries, 143, 247; and credit in France, 148-149, 176-179, 182, 184; German theory of, 61, 197, 202; effect of redemption on value of, 202, 248; inconvertible, in Germany, 204, 205, 268; Althoff-Yeend's notes in United States, 299-302; confusion of monetary and fiscal functions, 54, 99, 176-177.

Moratorium, English, 86, 91, 109, 111; French, 159-162, 164, 165, 167, 168; German, 224-227; evil of, 160; relation of, to credit, 226.


Muracco, 152, 200, 204

Norway, 30, 77, 132, 222, 240.

Ottowa, 103, 104 n., 122, 329, 330, 332.
Price, Sir G., 115 n. 2
Palgrave, Sir R.H.E., 97 m., 100.

Parquet, 156 m.; closed, 157.

Prices, in England, 115-121; in France, 181-183; in Germany, 222, 243-249; causes of high, 248; and credit in United States, 346, 352.

Quantity Theory, see Money; 116.

Reichsbank, see Imperial Bank of Germany; 105, 130.
Redemption, immediate and ultimate, 61, 63, 118, 251, 180, 202, 236, 248

Ribet, 167 m., 195.

Rößern, Count von, 263, 273 n. 2.

Rouvier, 152 n.

Rumania, 51, 155.

Russia, comparative growth of, 14, 15; trade 17, 30, 245; history of 37; financiers of, 55; 157; before money, 56, 174 m.

Savings, in England, 97; in France, 146, 193-194; in Germany, 267, 268; in United States, 354-358


Shantung Railway, 34.

Sherbrooke, Lord, 100 n.

Siemens, 25.
South America, Trade of 74; with United States, 314-317; Exchange on 317-319, 344-346.

Sprague, O.M.W., 325 n.; 326, n. 2.

Stock exchange, crisis in English, 80; closed, 81; French, 156.

Sugar, 20


Taxation, 41, 43, 56; versus loans, 134-135; in France, 156, 195.

in Germany, 258, 272, 273.

P. F. D., 20, 107, 158.

Thomas, Sidney Hitchins, 7, 24, 25.

Trade, of Great Britain, 106-109, 126; with Germany, 30-32; 97, 106; of France, 182, 186; of Germany, 30-32, 272-224, 244.

of United States, 306-319; with South America, 314-317.

Transportation, cheapened, effect of, 3-5; ocean, 5.

Treasury bills, British, 91, 127; French, 191.

Treasury notes, German, 203, 227, 232, 261, 269.

Turkey, 28, 27, 200, 234.
The conquest of man over nature nothing has been more striking during this period than the rise of a new era of power. The manufacture of power has created a new epoch, "no change has ever equaled those through which the world is now passing" 

Wherever and when needed, man can now manufacture practically unlimited power which relieves him of human labor, no longer are we limited to the back of a river or waterfalls as a site for a factory; nor are we dependent on the power of horses or animals; nor on the uncertain power of the wind.

Although the steam engine was developed in the 1860s, the manufacture of power by steam has come to fruition in the present epoch. Electricity has been used not only as a new source of power, but as a conqueror of power to distant places. An enormous amount of power can be concentrated where it could not before be had, and this inanimate power relieves animal and human labor, while the mind of man is released to designing methods and tools for applying power. Man has been thereby promoted from physical to mental and directing tasks. We are in this present living in the midst of changes such as were never realized in the history of the world.

The introduction of the gas engine into the service of every day tasks in the home, on the farm, and in the automobile; the harnessing of waterfalls to produce energy and power, are practical illustrations of what has come to our aid in the production of our satisfactions.
Having before us the facts of Germany's re-
markable and rapid industrial development, the
coincidence of the organization of the Empire with
the beginning of the greatest industrial revolution in
history, and the general and special causes at work
to produce this advance, we are obliged to study their
influence on the direct causes of the war.

One patent fact stands out above all others:

In the teeth of competition with the richest, most ex-
perienced commercial countries, with those longest
entrenched in successful trade, Germany, in the Three
decades before the war, made greater strides in pro-
duction and commerce than any other modern nation.

If so, why was she not content? If she really be-
drew England to be decadent, to be rotting in gross
materialism; if France had lost her fibre and was
given over to political degeneracy,—then why not let
them go on in their fatuous course, deaf to all ef-
forts, while she was rising every day to new
commercial victories, even in French and British mar-
kets, in spite of clear warnings and explicit
accounts of the methods by which Germans were suc-
cessfully absorbing the world's markets. French man-
ufacturers and exporters refused to wake up. Why
not let them remain asleep, while reaping the tri-
umphs of lawful industry?
As Germany wished the entry of her ships into all the ports of the world, the very facts of her advance in foreign trade and tonnage show beyond the shadow of a doubt that she achieved that end in times of peace. The "freedom of the seas" was hers in fact and in deed, without owning the ports into which she sailed on equal terms with Noregians, Italians, or British. She has no summons to war to gain what she already possessed. She has succeeded in a most remarkable commercial competition by reason of the national qualities of energy, foresight, persistence, efficiency and a genius for organization. Her government, moreover, took on paternalistic powers, assuming direct oversight over the physical, moral and intellectual effectiveness of the individual, and German society under autocratic direction acquainted. There resulted the greatest example of State socialism or management of industry and the arts of industrial making by the State, or headed by an absolute government of the personal Kaiser in which the proletariat had no voice. It was a government by autocratic experts, whose high efficiency presented a telling argument in favor of absolutism under which it flourished, and thus formed a strong bulwark for the reigning dynasty in an age in which the demand of the proletariat for an increasing share in the government was steadily advancing. The weakness of the government of France stood out in bold contrast to the forceful absolutism of Germany. Then, why did Germany not sit well enough alone?
In truth, we are forced to find some other cause for the war than the chance for industrial development. Without doubt, it was the exceptional growth of industrial power and efficiency which led, and gave opportunity for, a colossal national ambition. Since the Franco-Prussian War of 1870, one would be indeed blind not to see in Germany and most everywhere of a "swelled head", if a "feverish megalomania", with the new wealth there came extravagance and the reckless enjoyment of riches by the government, unwonted to the requirements of life. The increased national production gave the means for spending more funds on the army and district navy. Militarism had no direct influence in Germany. But a national dignity of almost too high a degree was created, and a national spirit of self-respect, so that the idea of national independence and strength was mastered and understood by all classes in the country.

When they demand the "freedom of the seas" they mean such control of the seas by a German navy that, in time of war, no other country can stop her commercial marine from sailing the seas, or naval power of any other allied countries. A navy was but a means to
The area thus led inevitably to face Russia and Southeastern Europe. The geographical position of Germany precluded much progress to the north, or west; her hope lay to the southeast through Austria-Hungary, the Balkan States, Constantinople, Turkey in Asia, Mesopotamia and the Persian Gulf. The colossal dream of Mittle-Europa gives the key to her Russian policy. Of Russia were allowed to build up friendly Balkan States, strong then Serbia, hand-in-hand Austria-Hungary, and throw her huge bridge across the way to the Persian Gulf by attaining Constantinople, Germany's ambition was destroyed. The Sarajevo assassination was only a lucky pretext for action, intended for the year before. German diplomacy emphasized the desire to "localize" the conflict between Austria-Hungary and Serbia; always provided the German purpose through Austria-Hungary. To prevent Russian domination in the Balkans was accomplished. When Russian mobilization began, it was directed against Austria-Hungary. In reality, it was a move against the dream of Mittle-Europa. When Germany made Austria-Hungary's cause her own, and demanded the demobilization of Russia, the real issue was joined, and the struggle transferred from Serbia to Russia with a General European War to decide the power of Germany to rule Europe, and thereafter the world. If Germany conquered, Great Britain would be taken in hand separately; so she was forced to join the allies. If the Allies
Acceptance, Chargeable, 71, 82, 280; Rogers, 70, 72; English, 82, 86, 88.
Again, 152.
Albion - Van Overend Notes, 100, n.
Algeria, 152.
American Foreign Securities Corporation, 188, n.
Anglo-French loan, 129, 339, 360.
Argentina, 154, 207, 316.
Austria - Hungary, Compromise Note (rate of), 14-15; note of, 87.
Bank, 234.
Baghdad Railway, 34, 154, 260.
Balkans, 37, 78; France and, 152-153; Wars of, 154-155, 199, 200, 204, 281.