

XXXIV. THE ECONOMICS OF WAR

I. Total War

THE market economy involves peaceful cooperation. It bursts asunder when the citizens turn into warriors and, instead of exchanging commodities and services, fight one another.

The wars fought by primitive tribes did not affect cooperation under the division of labor. Such cooperation by and large did not exist between the warring parties before the outbreak of hostilities. These wars were unlimited or total wars. They aimed at total victory and total defeat. The defeated were either exterminated or expelled from their dwelling places or enslaved. The idea that a treaty could settle the conflict and make it possible for both parties to live in peaceful neighborly conditions was not present in the minds of the fighters.

The spirit of conquest does not acknowledge restraints other than those imposed by a power which resists successfully. The principle of empire building is to expand the sphere of supremacy as far as possible. The great Asiatic conquerors and the Roman Emperors were stopped only when they could not march farther. Then they postponed aggression for later days. They did not abandon their ambitious plans and did not consider independent foreign states as anything else than targets for later onslaughts.

This philosophy of boundless conquest also animated the rulers of medieval Europe. They too aimed first of all at the utmost expansion of the size of their realms. But the institutions of feudalism provided them with only scanty means for warfare. Vassals were not obliged to fight for their lord more than a limited time. The selfishness of the vassals who insisted on their rights checked the king's aggressiveness. Thus the peaceful coexistence of a number of sovereign states originated. In the sixteenth century a Frenchman, Bodin, developed the theory of national sovereignty. In the seventeenth century a Dutchman, Grotius, added to it a theory of international relations in war and peace.

With the disintegration of feudalism, sovereigns could no longer rely upon summoned vassals. They "nationalized" the country's armed forces. Henceforth, the warriors were the king's mercenaries. The

organization, equipment, and support of such troops were rather costly and a heavy burden on the ruler's revenues. The ambitions of the princes were unbounded, but financial considerations forced them to moderate their designs. They no longer planned to conquer a whole country. All they aimed at was the conquest of a few cities or of a province. To attain more would also have been unwise politically. For the European powers were anxious not to let any one of them become too powerful and a menace to their own safety. A too impetuous conqueror must always fear a coalition of all those whom his bigness has frightened.

The combined effect of military, financial, and political circumstances produced the limited warfare which prevailed in Europe in the three hundred years preceding the French Revolution. Wars were fought by comparatively small armies of professional soldiers. War was not an affair of the peoples; it concerned the rulers only. The citizens detested war which brought mischief to them and burdened them with taxes and contributions. But they considered themselves victims of events in which they did not participate actively. Even the belligerent armies respected the "neutrality" of the civilians. As they saw it, they were fighting the supreme warlord of the hostile forces, but not the noncombatant subjects of the enemy. In the wars fought on the European continent the property of civilians was considered inviolable. In 1856 the Congress of Paris made an attempt to extend this principle to naval warfare. More and more, eminent minds began to discuss the possibility of abolishing war altogether.

Looking at conditions as they had developed under the system of limited warfare, philosophers found wars useless. Men are killed or maimed, wealth is destroyed, countries are devastated for the sole benefit of kings and ruling oligarchies. The peoples themselves do not derive any gain from victory. The individual citizens are not enriched if their rulers expand the size of their realm by annexing a province. For the people wars do not pay. The only cause of armed conflict is the greed of autocrats. The substitution of representative government for royal despotism will abolish war altogether. Democracies are peaceful. It is no concern of theirs whether their nation's sovereignty stretches over a larger or smaller territory. They will treat territorial problems without bias and passion. They will settle them peacefully. What is needed to make peace durable is to dethrone the despots. This, of course, cannot be achieved peacefully. It is necessary to crush the mercenaries of the kings. But this revolutionary war of the peoples against the tyrants will be the last war, the war to abolish war forever.

This idea was already dimly present in the minds of the French revolutionary leaders when, after having repelled the invading armies of Prussia and Austria, they embarked upon a campaign of aggression. Of course, under the leadership of Napoleon they themselves very soon adopted the most ruthless methods of boundless expansion and annexation until a coalition of all European powers frustrated their ambitions. But the idea of durable peace was soon resurrected. It was one of the main points in the body of nineteenth-century liberalism as consistently elaborated in the much abused principles of the Manchester School.

These British liberals and their continental friends were keen enough to realize that what can safeguard durable peace is not simply government by the people, but government by the people under unlimited *laissez faire*. In their eyes free trade, both in domestic affairs and in international relations, was the necessary prerequisite of the preservation of peace. In such a world without trade and migration barriers no incentives for war and conquest are left. Fully convinced of the irrefutable persuasiveness of the liberal ideas, they dropped the notion of the last war to abolish all wars. All peoples will of their own accord recognize the blessings of free trade and peace and will curb their domestic despots without any aid from abroad.

Most historians entirely fail to recognize the factors which replaced the "limited" war of the *ancien régime* by the "unlimited" war of our age. As they see it, the change came with the shift from the dynastic to the national form of state and was a consequence of the French Revolution. They look only upon attending phenomena and confuse causes and effects. They speak of the composition of the armies, of strategical and tactical principles, of weapons and transportation facilities, and of many other matters of military art and administrative technicalities.¹ However, all these things do not explain why modern nations prefer aggression to peace.

There is perfect agreement with regard to the fact that total war is an offshoot of aggressive nationalism. But this is merely circular reasoning. We call aggressive nationalism that ideology which makes for modern total war. Aggressive nationalism is the necessary derivative of the policies of interventionism and national planning. While *laissez faire* eliminates the causes of international conflict, government interference with business and socialism create conflicts for

1. The best presentation of the traditional interpretation is provided by the book, *Makers of Modern Strategy, Military Thought from Machiavelli to Hitler*, ed. E. M. Earle (Princeton University Press, 1944); cf. especially the contribution of R. R. Palmer, pp. 49-53.

which no peaceful solution can be found. While under free trade and freedom of migration no individual is concerned about the territorial size of his country, under the protective measures of economic nationalism nearly every citizen has a substantial interest in these territorial issues. The enlargement of the territory subject to the sovereignty of his own government means material improvement for him or at least relief from restrictions which a foreign government has imposed upon his well-being. What has transformed the limited war between royal armies into total war, the clash between peoples, is not technicalities of military art, but the substitution of the welfare state for the laissez-faire state.

If Napoleon I had reached his goal, the French Empire would have stretched far beyond the limits of 1815. Spain and Naples would have been ruled by kings of the house of Bonaparte-Murat instead of kings of another French family, the Bourbons. The palace of Kassel would have been occupied by a French playboy instead of one of the egregious Electors of the Hesse family. All these things would not have made the citizens of France more prosperous. Neither did the citizens of Prussia win anything from the fact that their king in 1866 evicted his cousins of Hanover, Hesse-Kassel and Nassau from their luxurious residences. But if Hitler had realized his plans, the Germans expected to enjoy a higher standard of living. They were confident that the annihilation of the French, the Poles, and the Czechs would make every member of their own race richer. The struggle for more Lebensraum was their own war.

Under laissez faire peaceful coexistence of a multitude of sovereign nations is possible. Under government control of business it is impossible. The tragic error of President Wilson was that he ignored this essential point. Modern total war has nothing in common with the limited war of the old dynasties. It is a war against trade and migration barriers, a war of the comparatively overpopulated countries against the comparatively underpopulated. It is a war to abolish those institutions which prevent the emergence of a tendency toward an equalization of wage rates all over the world. It is a war of the farmers tilling poor soil against those governments which bar them from access to much more fertile soil lying fallow. It is, in short, a war of wage earners and farmers who describe themselves as underprivileged "have-nots" against the wage earners and farmers of other nations whom they consider privileged "haves."

The acknowledgment of this fact does not suggest that victorious wars would really do away with those evils about which the aggressors complain. Neither does it mean that there can be any question

of appeasing the aggressors by removing migration barriers. As conditions are today, the Americas and Australia in admitting German, Italian, and Japanese immigrants would merely open their doors to the vanguards of hostile armies.

It is futile to place confidence in treaties, conferences, and such bureaucratic outfits as the League of Nations and the United Nations. Plenipotentiaries, office clerks and experts make a poor show in fighting ideologies. The spirit of conquest cannot be smothered by red tape. What is needed is a radical change in ideologies and economic policies.

2. War and the Market Economy

The market economy, say the socialists and the interventionists, is at best a system that may be tolerated in peacetime. But when war comes, such indulgence is impermissible. It would jeopardize the vital interests of the nation for the sole benefit of the selfish concerns of capitalists and entrepreneurs. War, and in any case modern total war, peremptorily requires government control of business.

Hardly anybody has been bold enough to challenge this dogma. It served in both World Wars as a convenient pretext for innumerable measures of government interference with business which in many countries step by step led to full "war socialism." When the hostilities ceased, a new slogan was launched. The period of transition from war to peace and of "reconversion," people contended, requires even more government control than the period of war. Besides, why should one ever return to a social system which can work, if at all, only in the interval between two wars? The most appropriate thing would be to cling permanently to government control in order to be duly prepared for any possible emergency.

An examination of the problems which the United States had to face in the second World War will clearly show how fallacious this reasoning is.

What America needed in order to win the war was a radical conversion of all its production activities. All not absolutely indispensable civilian consumption was to be eliminated. The plants and farms were henceforth to turn out only a minimum of goods for nonmilitary use. For the rest, they were to devote themselves completely to the task of supplying the armed forces.

The realization of this program did not require the establishment of controls and priorities. If the government had raised all the funds needed for the conduct of war by taxing the citizens and by borrowing from them, everybody would have been forced to cut down his

consumption drastically. The entrepreneurs and farmers would have turned toward production for the government because the sale of goods to private citizens would have dropped. The government, now by virtue of the inflow of taxes and borrowed money the biggest buyer on the market, would have been in a position to obtain all it wanted. Even the fact that the government chose to finance a considerable part of the war expenditure by increasing the quantity of money in circulation and by borrowing from the commercial banks would not have altered this state of affairs. The inflation must, of course, bring about a marked tendency toward a rise in the prices of all goods and services. The government would have had to pay higher nominal prices. But it would still have been the most solvent buyer on the market. It would have been possible for it to outbid the citizens who on the one hand had not the right of manufacturing the money they needed and on the other hand would have been squeezed by enormous taxes.

But the government deliberately adopted a policy which was bound to make it impossible for it to rely upon the operation of the unhampered market. It resorted to price control and made it illegal to raise commodity prices. Furthermore it was very slow in taxing the incomes swollen by the inflation. It surrendered to the claim of the unions that the workers' real take-home wages should be kept at a height which would enable them to preserve in the war their prewar standard of living. In fact, the most numerous class of the nation, the class which in peacetime consumed the greatest part of the total amount of goods consumed, had so much more money in their pockets that their power to buy and to consume was greater than in peacetime. The wage earners—and to some extent also the farmers and the owners of plants producing for the government—would have frustrated the government's endeavors to direct industries toward the production of war materials. They would have induced business to produce more, not less, of those goods which in wartime are considered superfluous luxuries. It was this circumstance that forced the Administration to resort to the systems of priorities and of rationing. The shortcomings of the methods adopted for financing war expenditure made government control of business necessary. If no inflation had been made and if taxation had cut down the income (after taxes) of all citizens, not only of those enjoying higher incomes, to a fraction of their peacetime revenues, these controls would have been supererogatory. The endorsement of the doctrine that the wage earners' real income must in wartime be even higher than in peacetime made them unavoidable.

Not government decrees and the paper work of hosts of people on the government's payroll, but the efforts of private enterprise produced those goods which enabled the American armed forces to win the war and to provide all the material equipment its allies needed for their cooperation. The economist does not infer anything from these historical facts. But it is expedient to mention them as the interventionists would have us believe that a decree prohibiting the employment of steel for the construction of apartment houses automatically produces airplanes and battleships.

The adjustment of production activities to a change in the demand of consumers is the source of profits. The greater the discrepancy between the previous state of production activities and that agreeing with the new structure of demand, the greater adjustments are required and the greater profits are earned by those who succeed best in accomplishing these adjustments. The sudden transition from peace to war revolutionizes the structure of the market, makes radical readjustments indispensable and thus becomes for many a source of high profits. The planners and interventionists regard such profits as a scandal. As they see it, the first duty of government in time of war is to prevent the emergence of new millionaires. It is, they say, unfair to let some people become richer while other people are killed or maimed.

Nothing is fair in war. It is not just that God is for the big battalions and that those who are better equipped defeat poorly equipped adversaries. It is not just that those in the front line shed their life-blood in obscurity, while the commanders, comfortably located in headquarters hundreds of miles behind the trenches, gain glory and fame. It is not just that John is killed and Mark crippled for the rest of his life, while Paul returns home safe and sound and enjoys all the privileges accorded to veterans.

It may be admitted that it is not "fair" that war enhances the profits of those entrepreneurs who contribute best to the equipment of the fighting forces. But it would be foolish to deny that the profit system produces the best weapons. It was not socialist Russia that aided capitalist America with lend-lease; the Russians were lamentably defeated before American-made bombs fell on Germany and before they got the arms manufactured by American big business. The most important thing in war is not to avoid the emergence of high profits, but to give the best equipment to one's own country's soldiers and sailors. The worst enemies of a nation are those malicious demagogues who would give their envy precedence over the vital interests of their nation's cause.

Of course, in the long run war and the preservation of the market economy are incompatible. Capitalism is essentially a scheme for peaceful nations. But this does not mean that a nation which is forced to repel foreign aggressors must substitute government control for private enterprise. If it were to do this, it would deprive itself of the most efficient means of defense. There is no record of a socialist nation which defeated a capitalist nation. In spite of their much glorified war socialism, the Germans were defeated in both World Wars.

What the incompatibility of war and capitalism really means is that war and high civilization are incompatible. If the efficiency of capitalism is directed by governments toward the output of instruments of destruction, the ingenuity of private business turns out weapons which are powerful enough to destroy everything. What makes war and capitalism incompatible with one another is precisely the unparalleled efficiency of the capitalist mode of production.

The market economy, subject to the sovereignty of the individual consumers, turns out products which make the individual's life more agreeable. It caters to the individual's demand for more comfort. It is this that made capitalism despicable in the eyes of the apostles of violence. They worshiped the "hero," the destroyer and killer, and despised the bourgeois and his "peddler mentality" (Sombart). Now mankind is reaping the fruits which ripened from the seeds sown by these men.

3. War and Autarky

If an economically self-sufficient man starts a feud against another autarkic man, no specific problems of "war-economy" arise. But if the tailor goes to war against the baker, he must henceforth produce his bread for himself. If he neglects to do this, he will be in distress sooner than his adversary, the baker. For the baker can wait longer for a new suit than the tailor can for fresh bread. The economic problem of making war is therefore different for the baker and for the tailor.

The international division of labor was developed under the assumption that there would no longer be wars. In the philosophy of the Manchester School free trade and peace were seen as mutually conditioning one another. The businessmen who made trade international did not consider the possibility of new wars.

Nor did general staffs and students of the art of warfare pay any attention to the change in conditions which international division of labor brought about. The method of military science consists in examining the experience of wars fought in the past and in abstracting

general rules from it. Even the most scrupulous occupation with the campaigns of Turenne and Napoleon I could not suggest the existence of a problem which was not present in ages in which there was practically no international division of labor.

The European military experts slighted the study of the American Civil War. In their eyes this war was not instructive. It was fought by armies of irregulars led by nonprofessional commanders. Civilians like Lincoln interfered with the conduct of the operations. Little, they believed, could be learned from this experience. But it was in the Civil War that, for the first time, problems of the interregional division of labor played the decisive role. The South was predominantly agricultural; its processing industries were negligible. The Confederates depended on the supply of manufactures from Europe. As the naval forces of the Union were strong enough to blockade their coast, they soon began to lack needed equipment.

The Germans in both World Wars had to face the same situation. They depended on the supply of foodstuffs and raw materials from overseas. But they could not run the British blockade. In both wars the outcome was decided by the battles of the Atlantic. The Germans lost because they failed in their efforts to cut off the British Isles from access to the world market and could not themselves safeguard their own maritime supply lines. The strategical problem was determined by the conditions of the international division of labor.

The German warmongers were intent upon adopting policies which, as they hoped, could make it possible for Germany to wage a war in spite of the handicap of the foreign trade situation. Their panacea was *Ersatz*, the substitute.

A substitute is a good which is either less suitable or more expensive or both less suitable and more expensive than the proper good which it is designed to replace. Whenever technology succeeds in manufacturing or discovering something which is either more suitable or cheaper than the thing previously used, this new thing represents a technological innovation; it is improvement and not *Ersatz*. The essential feature of *Ersatz*, as this term is employed in the economic-military doctrine, is inferior quality or higher costs or both together.²

The *Wehrwirtschaftslehre*, the German doctrine of the economics of war, contends that neither cost of production nor quality are important in matters of warfare. Profit-seeking business is concerned with costs of production and with the quality of the products. But

2. In this sense wheat produced, under the protection of an import duty, within the Reich's territory is *Ersatz* too: it is produced at higher costs than foreign wheat. The notion of *Ersatz* is a catallactic notion, and must not be defined with regard to technological and physical properties of the articles.

the heroic spirit of a superior race does not care about such specters of the acquisitive mind. What counts alone is war preparedness. A warlike nation must aim at autarky in order to be independent of foreign trade. It must foster the production of substitutes irrespective of mammonist considerations. It cannot do without full government control of production because the selfishness of the individual citizens would thwart the plans of the leader. Even in peacetime the commander-in-chief must be entrusted with economic dictatorship.

Both theorems of the Ersatz doctrine are fallacious.

First, it is not true that the quality and suitability of the substitute are of no importance. If soldiers are sent into battle badly nourished and equipped with weapons made of inferior material, the chances for victory are impaired. Their action will be less successful, and they will suffer heavier casualties. The awareness of their technical inferiority will weigh on their minds. Ersatz jeopardizes both the material strength and the morale of an army.

No less incorrect is the theorem that the higher costs of production of the substitutes do not count. Higher costs of production mean that more labor and more material factors of production must be expended in order to achieve the same effect which the adversary, producing the proper product, attains with a lower expenditure. It is tantamount to squandering scarce factors of production, material and manpower. Such waste under conditions of peace results in lowering the standard of living, and under conditions of war in cutting down the supply of goods needed for the conduct of operations. In the present state of technological knowledge it is only a slight exaggeration to say that everything can be produced out of anything. But what matters is to pick out from the great multitude of possible methods those with which output is highest per unit of input. Any deviation from this principle penalizes itself. The consequences in war are as bad as they are in peace.

In a country like the United States, which depends only to a comparatively negligible extent on the importation of raw materials from abroad, it is possible to improve the state of war preparedness by resorting to the production of substitutes such as synthetic rubber. The disadvantageous effects would be small when weighed against the beneficial effects. But a country like Germany was badly mistaken in the assumption that it could conquer with synthetic gasoline, synthetic rubber, Ersatz textiles and Ersatz fats. In both World Wars Germany was in the position of the tailor fighting against the man who supplies him with bread. With all their brutality the Nazis could not alter this fact.

4. The Futility of War

What distinguishes man from animals is the insight into the advantages that can be derived from cooperation under the division of labor. Man curbs his innate instinct of aggression in order to cooperate with other human beings. The more he wants to improve his material well-being, the more he must expand the system of the division of labor. Concomitantly he must more and more restrict the sphere in which he resorts to military action. The emergence of the international division of labor requires the total abolition of war. Such is the essence of the *laissez-faire* philosophy of Manchester.

This philosophy is, of course, incompatible with statolatry. In its context the state, the social apparatus of violent oppression, is entrusted with the protection of the smooth operation of the market economy against the onslaughts of antisocial individuals and gangs. Its function is indispensable and beneficial, but it is an ancillary function only. There is no reason to idolize the police power and ascribe to it omnipotence and omniscience. There are things which it can certainly not accomplish. It cannot conjure away the scarcity of the factors of production, it cannot make people more prosperous, it cannot raise the productivity of labor. All it can achieve is to prevent gangsters from frustrating the efforts of those people who are intent upon promoting material well-being.

The liberal philosophy of Bentham and Bastiat had not yet completed its work of removing trade barriers and government meddling with business when the counterfeit theology of the divine state began to take effect. Endeavors to improve the conditions of wage earners and small farmers by government decree made it necessary to loosen more and more the ties which connected each country's domestic economy with those of other countries. Economic nationalism, the necessary complement of domestic interventionism, hurts the interests of foreign peoples and thus creates international conflict. It suggests the idea of amending this unsatisfactory state of affairs by war. Why should a powerful nation tolerate the challenge of a less powerful nation? Is it not insolence on the part of small Lapputania to injure the citizens of big Ruritania by customs, migration barriers, foreign exchange control, quantitative trade restrictions, and expropriation of Ruritanian investments in Lapputania? Would it not be easy for the army of Ruritania to crush Lapputania's contemptible forces?

Such was the ideology of the German, Italian, and Japanese war-mongers. It must be admitted that they were consistent from the point

of view of the new "unorthodox" teachings. Interventionism generates economic nationalism, and economic nationalism generates bellicosity. If men and commodities are prevented from crossing the borderlines, why should not the armies try to pave the way for them?

From the day when Italy, in 1911, fell upon Turkey fighting was continual. There was almost always shooting somewhere in the world. The peace treaties concluded were virtually merely armistice agreements. Moreover they had to do only with the armies of the great powers. Some of the smaller nations were always at war. In addition there were no less pernicious civil wars and revolutions.

How far we are today from the rules of international law developed in the age of limited warfare! Modern war is merciless, it does not spare pregnant women or infants; it is indiscriminate killing and destroying. It does not respect the rights of neutrals. Millions are killed, enslaved, or expelled from the dwelling places in which their ancestors lived for centuries. Nobody can foretell what will happen in the next chapter of this endless struggle.

This has nothing to do with the atomic bomb. The root of the evil is not the construction of new, more dreadful weapons. It is the spirit of conquest. It is probable that scientists will discover some methods of defense against the atomic bomb. But this will not alter things, it will merely prolong for a short time the process of the complete destruction of civilization.

Modern civilization is a product of the philosophy of *laissez faire*. It cannot be preserved under the ideology of government omnipotence. Statolatry owes much to the doctrines of Hegel. However, one may pass over many of Hegel's inexcusable faults, for Hegel also coined the phrase "the futility of victory" (*die Ohnmacht des Sieges*).³ To defeat the aggressors is not enough to make peace durable. The main thing is to discard the ideology that generates war.

3. Cf. Hegel, *Vorlesungen über die Philosophie der Weltgeschichte*, ed. Lasson (Leipzig, 1920), IV, 930-931.