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FRENCH WAR BUDGETS FOR 1919-1920¹

It has sometimes been said in England, not without a certain bitterness, that the French taxpayer has come off very lightly during the war. I take from an English newspaper the following passage, which gives expression to the existing dissatisfaction on the subject, and which is worth quoting. It occurs in a letter signed "Income Tax-payer":—

"The report of the Finance Committee of the Chamber of Deputies on the new Income Tax Bill shows that taxes have increased in Britain during the war from 95 francs per head to 265 francs, whereas the increase in France is only from 90 to 103 francs.

"Are we financing France and paying income tax varying from 2*s.* 3*d.* on earned incomes to 5*s.* in the £ on unearned in order that the inhabitants of a rich country like France may continue to enjoy the privilege of a low income tax at our expense, and in order to enable the Finance Committee of the French Chamber to brag about this clever performance?"

In some respects this protest appears to be well founded. The new taxes introduced in France from the beginning of the war to the present time do not amount to more than 3,600 million francs. Moreover, these taxes were only introduced in the course of the last two years of the war. It was only in 1916 that the first taxes were voted, in the form of a super-tax on alcohol and a tax on war profits. And it was not until the beginning of 1917 that the new taxation made its first public appearance in the modest guise of an increase in postal rates from 10 c. to 15 c. and of a certain number of new stamp duties on receipts. Until that date the French Government had performed the feat

¹ At the close of May, after this article had gone to press, M. Klotz brought forward some further proposals.

of carrying on the most expensive of all wars without requiring the French taxpayer to contribute a single penny.

Not only have French taxpayers been liable to new taxation for a comparatively short time only, but, further, they have in many cases been relieved of the necessity of paying the old taxes. This applies at any rate to all such of them as were mobilised, since tax-collectors had in fact been instructed not to prosecute. At the same time, in virtue of the "Moratorium" proclaimed at the outbreak of war, mobilised rent-payers or their families were dispensed from paying house rent, farmers were excused from paying agricultural rent, and debtors from paying their debts. Again, in France, as for that matter in England and in Germany, the families of mobilised men received allowances which, at the outset, were fixed at 1 fr. 25 c. for a wife and 0.50 for each child; these allowances were gradually increased to 1 fr. 75 for a wife, 1 fr. 25 for each child and 1 fr. 50 for the third child and upwards, so that for a wife and three children they amounted to 5 fr. 75 a day, or 40 fr. 25 a week—representing a total charge on the State of more than 2,500 million francs a year. If all this is taken into consideration, it will easily be understood that for many a working or peasant family, for all of these at any rate who have not had to mourn the death of a son, the Great War will have been a veritable Golden Age the memory of which will be handed down from generation to generation as of a fabulous time when neither taxes, nor rents, nor debts were paid, and the end of which was much to be regretted, however much one may scruple to pray for its return.

This fiscal policy of the French Government was inspired—as M. Métin, the Under Secretary of State for Financial Affairs, somewhat candidly expressed it—by the desire "to maintain the magnificent enthusiasm of the people by enabling their families to endure, with a constancy that has never failed, the trials imposed upon them for the salvation of their country." Clearly there is nothing very heroic about this method of maintaining the *morale* of the country, but it was successful; and it may indeed be doubted whether, without such pecuniary support, the population would have endured so long a period of war with the additional burden of high prices. But this policy continually provoked criticism that was sometimes severe not only abroad, but also in France.

The difference between the treatment of the taxpayer in France and in other countries will perhaps seem less flagrant and less unjustifiable if the following circumstances are considered :—

1. From the moment when war broke out France believed in a short war, lasting six months at the most. This mistaken belief was encouraged by the expectations of the General Staff and by those of the most distinguished economists, of whom one of the most prominent was the late Paul Leroy-Beaulieu. Instead of being enlightened by the attitude of England, whose preparations were made on the assumption that the war would last at least three years, the French public was carefully prevented from entertaining such an appalling prospect. I remember that when, at the beginning of the war, Lord Kitchener made a speech in which he contemplated a duration of three years, the sentence in question was cut out by the Censor and not published in the French newspapers. This confident belief in a short war made it obviously unnecessary to impose fresh taxation.

2. In France almost the whole adult male population was mobilised in the very first days of the war—3,784,000 men as early as August 15th, and more than five million men by February 1st, 1915. In England, on the other hand, mobilisation only took place gradually. The disturbance occasioned in business and in family life was consequently more sudden and more general in France, and made it difficult to introduce new taxes. Even the old taxes could not be collected under such conditions.

3. It was not easy to devise a new form of taxation. A tax on food was out of the question, since its effect would have been to aggravate the already alarming rise in prices. As for direct taxes, France had no such marvellous fiscal instrument available as the English Income Tax, which can simply be raised as far as is necessary. It is true that at the moment when war broke out the tax on income had just been introduced in France. But this tax was not yet in working order, and had in any event only been introduced as a financial experiment which was not expected to yield more than 60 million francs. The first effect of the war was to put this tax altogether out of gear. Later on, in 1917 and 1918, it was decided to increase to 10 per cent. and 12½ per cent. the original maximum rate of only 2 per cent. But even to-day the machinery of collection is very imperfect. It must be remembered that a great number of the officials employed in the Treasury had been mobilised, and it was consequently a matter of extreme difficulty to complete and to control the contribution schedules.¹

4. Last, and not least, it should not be forgotten that France,

¹ As an example of the disorder in the Treasury Administration I may say that at the end of March, 1919, the taxpayers had not yet received the demand forms for income tax relating to incomes of 1917.

unlike England, has been invaded since the beginning of the war. And although the extent of the occupied territory (at least since the withdrawal that followed the victory of the Marne) is only, 4 per cent. of the whole area of France, yet it included the most populous and the most industrial districts, and represented about 15 per cent. of the revenue of the country.

These facts may seem sufficient to excuse the French Government for having raised by taxation only a small part of the cost of the war—about 22 milliards of francs out of total expenses amounting to 181 milliards (to April 1st, 1919), or only 12 per cent., whereas in England taxation provided about 26 per cent., and in the United States more than 50 per cent.; in Germany the proportion is not believed to have been higher than in France.

Nor can we endorse a criticism which has often been made against the French Government, namely, that it had recourse too much to short-term loans or to loans in the form of note issues, instead of relying upon loans in the form of consolidated *rentes*. In any event it is not England, who herself did not resort to perpetual annuities on a great scale, but Germany, who is in a position to make such a criticism. It is true that in Germany a great loan was issued regularly every six months, and that by this means the enormous sum of more than 100 milliards of marks was obtained from the country. France, on the other hand, issued a loan only once a year, or four loans in all, which together produced 54 milliards of francs, or only 37 per cent. of her expenses.¹ It is undeniable that the regularity with which

¹ From August 1st, 1914, to April 1st, 1919, the expenses of the war in France amounted to 181 milliards (£7,240 million), covered as follows :—

22 milliards by taxation	...	...	...	...	16 per cent.
54 milliards by loan in the form of "rentes perpetuelles"	...	...	...	...	33 "
32 milliards by short-term bonds	...	...	...	...	20 "
26 milliards by loans from the Bank of France (in the form of note issue)	...	...	...	...	14 "
27 milliards by foreign loans (chiefly from England and U.S.A.).	...	...	...	...	17 "
161					100

It follows that 20 milliards of francs remain to be provided, pending repayments by Germany and the issue of new loans. But in order to arrive at the expenses arising out of the war it is necessary to deduct from this grand total the ordinary expenses which would have figured in the Budget in any event, even if there had been no war, i.e., at the rate of 5 milliards a year, about 23 milliards in all. The sum to be deducted is thus roughly equal to the proceeds of taxation, and the remaining total properly attributable to the war is 158 milliards. The fact that the ordinary expenses are almost equal to the sums obtained by taxation proves that taxation contributed practically nothing towards war expenses. The new taxes of 1917 and 1918 did no more than cover

the German nation paid twice a year some 12 to 15 milliards of marks in capital is most imposing. In spite of the way in which the ingenious devices invented to facilitate these payments were abused, it must be admitted that the German people gave proof of a very sturdy confidence in their Government. The French public preferred the system of short-term bonds repayable at will after periods of one, three, or six months, etc., and was willing, more often than not, to renew these bonds indefinitely, since all that mattered to the investor was the knowledge that they could at will be withdrawn in the form of cash. The greater part of the enormous war profits, and even the small savings realised by the middle classes or by the peasants, were invested in this form. The total amount subscribed in bonds was seldom less than a milliard a month, and since the successes of last autumn it has increased to more than $2\frac{1}{2}$ milliards a month. Even since the Armistice these subscriptions have amounted to $1\frac{1}{2}$ milliards of francs a month.

As for the loans in the form of note issues by the Bank of France, without shutting our eyes to the dangers of this too convenient method of coining money, we do not think that in these unusual circumstances the Government was to blame. The total up to date (April 1st, 1919) is 37 milliards of francs, and will eventually amount to 40 milliards. We may admit that this expansion of the note issue was one of the causes of the rise in prices—since in England, where the issue of bank notes and even of currency notes was, after all, very restricted, the rise in prices has not been as great as in France. But the rise in prices was itself not an unmixed evil; no doubt it increased the expenses of the war, but, on the other hand, it was a powerful stimulus to agricultural and industrial production. This question is, however, too wide to be treated incidentally.

We should be more inclined to criticise the French Government for having been too timid in the issue of its four great loans. They were all issued very much below par (at about 88 fr. in the case of the first two 5 per cent. loans, 68 for the third loan at 4 per cent., and 72 for the fourth at 4 per cent.). England issued a 5 per cent. loan at 95, Germany at 98, and even Italy at 95, 97, and 90, at least in the case of her first loans. The result is that France incurred a debt of 69,375 millions of francs in return for actual receipts amounting to only 53,280 millions;

the non-payment of taxes during the years 1914-1916. And on the other hand there remain to be added the expenses of demobilisation and of reconstruction in invaded territories—expenses which do not fall far short of those incurred in war time.

which means that when the debt is repaid or converted she will have to refund 16,095 millions more than she received! In the meantime she is paying an interest of not much less than 6 per cent. Moreover, she has pledged herself to her creditors not to inflict any taxation on the coupons of the *rente* (which England did not do), and not to convert for fifteen or, in the case of the last loan, for as much as twenty-five years. In this way French capitalists have been afforded advantages which were quite disproportionate and, I may add, quite unnecessary. The loan would have been subscribed just as easily if it had been issued at the same rate as in England or in Germany. Of the millions of Frenchmen who subscribed there were very few who worried about the rate of interest or who would have refrained if the rate of interest had been 5 per cent. instead of 5·85. The Government did not have sufficient faith in the patriotism of French capitalists, great and small, and the timidity of the Government may be translated into terms of a heavy impost on the generations that are to come.

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So much for the Budgets of past years. But now that the war is over it is evident that the Government will not be able to continue the same policy and to pay its expenses from day to day by means of loans. Future Budgets will have, like all Budgets, to be based upon the normal revenue derived from taxation. And what should be the total of such a Budget? According to the estimate of M. Ribot, late Minister of Finance, the total should be 18 milliards. More recent estimates are as high as 22 milliards.¹

And yet the Budget voted for the present year, 1919, amounts to no more than 9 milliards (or, more precisely, to 8,926 millions), a somewhat startling discrepancy of figures! This modest figure is all the more surprising if it is compared with that of the last Budget voted before the war, which was for 5,091 millions. It seems, then, that in these five terrible years the French Budget has increased by only 3,945 millions, or 78 per cent. Moreover,

¹ The future Budget may be estimated on the following basis:—

(i) Pre-war Budget	...	...	...	...	...	5 milliards.
(ii) Rise in salaries resulting from the increased cost of living	2	..				
(iii) Interest on loans for the expenses of the war	8	..				
(iv) War pensions and demobilisation grants	4	..				
(v) Interest on loans for the reparation of war damages	3	..				

these figures exaggerate the real increase, for the receipts for 1919 fall short of the estimates. For example, the tax on payments and purchases of luxuries will yield not more than 150 million francs, though the estimated receipts were 900 millions. How trifling this increase must seem beside the increase in the English Budget, which in the same period has been more than quadrupled. In fact, before the war the English total was approximately the same as the French, 200 million £, and the figure for 1918-19 exceeds 800 millions.

Anyone who saw these figures without knowing the history of the war would conclude that France had spent much less than England on the war. It is true that she has spent a little less, but the difference is, after all, not so very great. From August 1st, 1914, to the end of the first quarter of 1919, France will have spent 158 milliards of francs (see the note to p. 132), while England will have spent, in round figures, 250 milliards (10 milliards of pounds). But if we deduct loans made by either nation to the Allies, viz., 50 milliards of francs (2 milliards of pounds) for England, and 7 milliards of francs for France, the expenses of the two countries are reduced to 151 and 200 milliards of francs respectively. The proportion is therefore as 75 to 100, whereas the two Budgets stand to one another in the proportion of only 43 to 100. How is this difference to be explained?

The reason is that in France the Budget of 1919 is swollen only by the sums necessary to provide the interest due on the four great loans issued in the form of perpetual *rente* (viz., a little more than 3 milliards for the repayment of interest) and by certain increases, sanctioned before the war, in the salaries of officials. No provision is yet made for the repayment of other war expenses or for the establishment of corresponding annuities. Nor is anything provided for refund to the Bank of France, for the reparation of war damages, for the payment of pensions to disabled men, widows, orphans, etc.¹

Why these omissions? Because it is hoped that France will not have to pay, or at any rate will not have to pay the whole of these expenses, and because the actual total of the expenses which will have to be met must first be established before it is definitely included in the final Budget. That is what we were told by the Minister of Finance, M. Klotz, when he introduced the Budget. He did not promise not to make further demands

¹ The projected Budget for 1920, which has lately been introduced, amounts to 10,305, but does not include any fresh taxation, the excess of expenses over the preceding Budget being covered by the sale of a part of the stocks of war supplies.

upon the taxpayer in his future Budgets, but he declared that he would make no demands upon him until he had exhausted every possible means of avoiding this terrible increase of 10 or 12 milliards.¹

And by what means is it possible to avoid such an increase? Let us enumerate them without discussing them.

The first, and to all appearances, the simplest would be to make Germany pay. As regards the damage done to the invaded territories in France, the principle has been solemnly proclaimed in Article VIII. of President Wilson's fourteen points, and has, in fact, been accepted by Germany. On this first point there is therefore no difficulty in law; but there is a practical difficulty arising out of the discrepancies between the different estimates of the amount of damage done, which vary from 20 to 120 milliards! But President Wilson's points do not provide for any other obligation to repay; and as it was, after all, on the basis of these points that the Armistice was signed by both parties, it seems difficult to provide, for France alone, a relief of more than 2 or 3 milliards on the Budget.

Another method would be to pool all the war expenses of the Entente Governments and to divide them between the Governments in proportion either to population, as has been suggested by a deputy, M. Stern, or to their wealth, as was proposed by Italy. Whichever of these two alternatives were adopted, the share of France would be thereby considerably reduced, for neither in population nor in wealth is France to be counted among the first of the Entente States. England, and especially the United States, would have to bear the greater share. We ourselves put forward this suggestion in an article published a year ago,² but *cum grano salis*, and with the remark that such a system of redistribution would be too much at the expense of Uncle Sam and would assign to him somewhat too literally the rôle of an "American uncle!" But, more recently, other promoters of this system have pressed insistently for its acceptance, and have been at pains to demonstrate that it would do bare justice. The thesis is tenable; why not "a united Budget" as one said "a united front" and "unity of command"? But at the same time one should take care that such a proposition does not

¹ "If it appears that new taxation is inevitable, if it should prove to be the case that the French people, which did not want the war, must make yet further sacrifices, whether by direct or indirect taxation, I shall take the necessary action. But I shall not invert the order of these two factors."—*Speech in the Chamber*, December, 1918.

² *ECONOMIC JOURNAL*, January, 1918.

have the effect of provoking irritating quarrels between the States represented at the Paris Conference, as was the case when a French deputy proposed that population should be taken as the basis of redistribution. It is not easy to see Japan accepting the portion assigned to her under the system of redistribution advocated by M. Stern, namely, the payment of an annuity of 3,325 million francs a year. Still less is it possible to imagine that Russia would impose upon herself an annual contribution of 8,670 millions.

One resource remains, that of economies. Some economy appears to be realisable if the League of Nations can achieve the reduction of expenditure on armaments. The State might effect another economy by postponing the repayment of the Bank of France, for it pays only a very small interest ($\frac{3}{4}$ per cent. at present and 3 per cent. from the signature of peace). But such an economy would be dangerous, and would moreover have little importance in relation to the huge figures of the Budget.

Whatever may be the fate reserved for these various proposals, it seems improbable that the hopes of the Minister of Finance and of the French taxpayer will be realised. Even if the United States and England were to grant exceptionally favourable treatment to France in the final settlement, even if Germany were bled white to the last limit of her resources, the French taxpayer could not hope to see his future Budgets remain at any lower figure than from 18 to 19 milliards. This figure would represent about 57 per cent. of the total of French incomes—57 per cent., that is to say, of those incomes as they were before the war. It is true that on account of the depreciation of the currency these incomes might amount after the war to twice, or perhaps three times, that figure. In that event the post-war Budget would not involve a proportionately heavier charge upon the resources of the country than the pre-war Budget. Inflation would thus have acquired yet another claim to the gratitude of taxpayers, if not of economists. But the revenue of France can also be increased, not only nominally, but really, by an intensified production, for France has not been by any means obtaining the maximum advantage from her natural resources in land and labour. Let us hope that this will be the solution.

CHARLES GIDE