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PUBLIC FINANCE AND NATIONAL SECURITY: THE DOMESTIC ORIGINS OF THE FIRST WORLD WAR REVISITED

The notion that the First World War had domestic origins, like the general, anti-Rankean theory of the primacy of domestic politics over foreign policy, has lately acquired the air of an idea whose time has passed.¹ Certainly, in the case of German policy in 1914, the argument advanced by Mayer, Fischer, Wehler, Groh and others that the German “ruling élites” precipitated war to avert a domestic political crisis — “to strengthen the patriarchal order and mentality” and “halt the advance of Social Democracy” — no longer appears tenable.² The evidence that economic interest groups favoured war is too thin,³ whereas the evidence that at least one principal decision-maker thought in

¹ See, for example, K. Hildebrand, *Deutsche Aussenpolitik, 1871-1918* (Munich, 1989), p. 1; G. Schöllgen, “Introduction: The Theme Reflected in Recent German Research”, in G. Schöllgen (ed.), *Escape into War? The Foreign Policy of Imperial Germany* (Oxford, New York and Munich, 1990), pp. 1-17. The attempt to assert the primacy of domestic politics originated with Eckart Kehr, but was perhaps most explicitly formulated by his editor: see H.-U. Wehler, “Einleitung”, in E. Kehr, *Der Primat der Innenpolitik: Gesammelte Aufsätze zur preussisch-deutschen Sozialgeschichte im 19. und 20. Jahrhundert* (Berlin, 1970), pp. 1-30.

² See A. J. Mayer, “Domestic Causes of the First World War”, in L. Krieger and F. Stern (eds.), *The Responsibility of Power: Historical Essays in Honour of Hajo Holborn* (New York, 1967), pp. 286-300; F. Fischer, *War of Illusions: German Policies from 1911 to 1914* (London and New York, 1975), esp. pp. 61, 83, 94, 258; D. Groh, “‘Je eher, desto besser!’ Innenpolitische Faktoren für die Präventivkriegsbereitschaft des Deutschen Reiches 1913/14”, *Politische Vierteljahresschrift*, xiii (1972), pp. 501-21; M. R. Gordon, “Domestic Conflict and the Origins of the First World War: The British and German Cases”, *Jl. Mod. Hist.*, xlv (1974), pp. 191-226; P.-C. Witt, “Innenpolitik und Imperialismus in der Vorgeschichte des Ersten Weltkrieges”, in K. Holl and G. List (eds.), *Liberalismus und imperialistischer Staat* (Göttingen, 1975), pp. 24 ff.; H.-U. Wehler, *The German Empire, 1871-1918* (Leamington Spa and Dover, N.H., 1985), pp. 192-201. Cf. the critique in W. J. Mommsen, “Domestic Factors in German Foreign Policy before 1914”, *Central European Hist.*, vi (1973), pp. 3-43; J. Joll, *The Origins of the First World War* (London, 1984), pp. 108-18.

³ Despite the efforts of East German historians to uncover links between business interests and the outbreak of war, the evidence points to the exclusion of businessmen from the decision-making processes which led to war. See W. Gutsche, “The Foreign Policy of Imperial Germany and the Outbreak of the War in the Historiography of the GDR”, in Schöllgen (ed.), *Escape into War?*, pp. 41-62.

diametrically opposite terms — that “a world war . . . would strengthen tremendously the power of Social Democracy” — cannot be ignored.⁴ Nor is it persuasive to relate the growth of a radical “national opposition” to decisions taken in Potsdam and the Wilhelmstrasse prior to and during the July Crisis. As Bethmann said, “With these idiots one cannot conduct a foreign policy”; nor did he.⁵ It is therefore hardly surprising that the German historiography of the war’s origins should once again have turned outwards. Fischer’s critics have been able to reassert their view of a systemic crisis, stemming from Wilhelmine Germany’s “world policy” and its consequent, geopolitically determined “encirclement” or isolation.⁶ The emphasis on high politics, grand strategy and, above all, diplomacy, has long been popular with British and American scholars.⁷ Even one of Fischer’s own pupils appears to be moving in this direction.⁸

This article seeks to leave behind the somewhat sterile debate about internal-versus-external primacy by concentrating on the point where foreign and domestic policies most clearly intersect: fiscal policy. Its starting point is a question posed in an obscure leaflet published in 1912 by the *Ostdeutsche Buchdruckerei und Verlagsanstalt*: “Is Germany prevented by its financial situation from fully utilizing its entire national strength in its army?”⁹

⁴ Bethmann to Lerchenfeld in 1914, quoted in I. Geiss, *July 1914: The Outbreak of the First World War: Selected Documents* (London, 1967), p. 47. Cf. D. E. Kaiser, “Germany and the Origins of the First World War”, *Jl. Mod. Hist.*, lv (1983), pp. 442-74; G. Schmidt, “Parlamentarisierung oder ‘Präventive Konterrevolution’? Die deutsche Innenpolitik im Spannungsfeld konservativer Sammlungsbewegungen und latenter Reformbestrebungen (1907-1914)”, in G. A. Ritter (ed.), *Gesellschaft, Parlament und Regierung* (Düsseldorf, 1974), pp. 249-78.

⁵ On the growing gulf between the government and the radical right, see G. Eley, *Reshaping the German Right: Radical Nationalism and Political Change after Bismarck* (New Haven, 1979), pp. 316-34; W. J. Mommsen, “Public Opinion and Foreign Policy in Wilhelmine Germany, 1897-1914”, *Central European Hist.*, xxiv (1991), pp. 381-401.

⁶ G. Schöllgen, “Germany’s Foreign Policy in the Age of Imperialism: A Vicious Circle”, in Schöllgen (ed.), *Escape into War?*, pp. 121-33.

⁷ For some recent examples, see R. T. B. Langhorne, *The Collapse of the Concert of Europe: International Politics, 1890-1914* (London, 1981); F. R. Bridge and R. Bullen, *The Great Powers and the European State System, 1815-1914* (London and New York, 1980).

⁸ I. Geiss, *Der lange Weg in die Katastrophe: Die Vorgeschichte des Ersten Weltkriegs, 1815-1914* (Munich and Zurich, 1990).

⁹ Quoted in R. Ropponen, *Die russische Gefahr: Das Verhalten der öffentlichen Meinung Deutschlands und Österreich-Ungarns gegenüber der Aussenpolitik Russlands in der Zeit zwischen dem Frieden von Portsmouth und dem Ausbruch des Ersten Weltkrieges* (Helsinki, 1976), p. 98.

This, it will be suggested, was and is the right question to ask. The decisive factor in 1914 which pushed the German Reich over the brink into war was the conviction of both military and civilian leaders that Germany could not win the arms race against its continental neighbours. It is argued here that this conviction was justified in terms not only of the size and capability of Germany's military forces, but more particularly in terms of the financial effort Germany was making towards her own defence. However, this steady decline in Germany's security was not in any sense inevitable. Germany had the economic potential to muster a substantially stronger defence capability. Moreover there was no shortage of "militarist" sentiment in Germany, which ought to have made increased defence spending possible. The reason it was not lies in the fiscal structure of the Reich, and thus in the realm of domestic politics. By comparing the political economy of German security with that of her principal ally and principal antagonists, I suggest that Germany could and should have spent more on defence before 1914, but that domestic political factors prevented it, and in that sense can be seen as a root cause of the war. The speculative hypothesis which follows from this is the paradoxical one that if Wilhelmine Germany had been *more* militaristic — spending more on defence, and therefore less strategically insecure — the First World War might have been less likely.

To begin with, a brief rehearsal of the debate about German policy in 1914 is necessary. Fischer's argument that there was a premeditated plan for war dating from December 1912, relying on British neutrality and aiming at continental hegemony is certainly over-reliant on circumstantial evidence.¹⁰ But the view put forward in various forms by Erdmann, Zechlin and others that Bethmann Hollweg was taking some kind of "calculated risk" aimed at improving Germany's international position may be

¹⁰ Fischer, *War of Illusions*, *passim*. On the historiography of the "Fischer Controversy", see J. A. Moses, *The Politics of Illusion: The Fischer Controversy in German Historiography* (London, 1975); J. Droz, *Les causes de la première guerre mondiale: essai d'historiographie* (Paris, 1973); I. Geiss, "Die Fischer Kontroverse: Ein kritischer Beitrag zum Verhältnis zwischen Historiographie und Politik in der Bundesrepublik", in his *Studien über Geschichte und Geschichtswissenschaft* (Frankfurt, 1972), pp. 108-98; A. Sywottek, "Die Fischer Kontroverse", in I. Geiss and B. J. Wendt (eds.), *Deutschland in der Weltpolitik des 19. und 20. Jahrhunderts* (Düsseldorf, 1973), pp. 19-74; G. Schöllgen, "Griff nach der Weltmacht? 25 Jahre Fischer Kontroverse", *Historisches Jahrbuch*, cvi (1986), pp. 386-406.

over-sympathetic to the German government.¹¹ The precondition for war was undoubtedly diplomatic: the failure of Germany to prevent the formation of a loose Anglo-French-Russian *entente*, despite opportunities in 1900, 1904/5 and 1912 to establish comparable ties with England or Russia. The Germans saw a confrontation over the Balkans as a means of preserving their own fragile alliance with Austria-Hungary, possibly also creating an anti-Russian Balkan alliance and perhaps even splitting the Entente¹² — calculations which were by no means unrealistic.¹³ Yet it is hard to explain in purely diplomatic terms why they persisted with this scheme in the face of ample evidence that it would lead to a European war. It is true that during July 1914 the German decision-makers sometimes expressed the *hope* that the conflict would be localized: in other words that Austria would be able to vanquish Serbia without Russian intervention. However, it is hard to reconcile these aspirations with the frequent allusions elsewhere to the likelihood of a more general conflagration. Such fears were clearly borne out by the actions of British and Russian ministers. Moreover, given clear indications from Grey and Sazonov that conflict would not be “localized”, there were ample opportunities for Berlin to back down. Yet the initial British initiatives were given only the most insincere sup-

¹¹ See K. D. Erdmann, “Zur Beurteilung Bethmann Hollwegs”, *Geschichte in Wissenschaft und Unterricht*, xv (1964), pp. 525-40; E. Zechlin, “Deutschland zwischen Kabinettskrieg und Wirtschaftskrieg: Politik und Kriegsführung in den ersten Monaten des Weltkrieges 1914”, *Historische Zeitschrift*, cxix (1964), pp. 347-458; K. H. Jarausch, “The Illusion of Limited War: Chancellor Bethmann Hollweg’s Calculated Risk, July 1914”, *Central European Hist.*, ii (1969), pp. 48-76; E. Zechlin, *Krieg und Kriegsrisiko: Zur deutschen Politik im Ersten Weltkrieg* (Düsseldorf, 1979); E. Zechlin, “July 1914: Reply to a Polemic”, in H. W. Koch (ed.), *The Origins of the First World War* (London, 1984), pp. 373 ff.; K. D. Erdmann, “War Guilt 1914 Reconsidered: A Balance of New Research”, *ibid.*, pp. 334-70; K. D. Erdmann, “Hat Deutschland auch den Ersten Weltkrieg entfesselt? Kontroversen zur Politik der Mächte im Juli 1914”, in K. D. Erdmann and E. Zechlin (eds.), *Politik und Geschichte: Europa 1914 — Krieg oder Frieden* (Kiel, 1985), pp. 19-48; E. Zechlin, “Juli- und Kriegausbruch, 1914”, *ibid.*, pp. 90 ff.; K. Hildebrand, “Juli- und Kriegausbruch, 1914: Das europäische Sicherheitsdilemma: Betrachtungen über den Ausbruch des Ersten Weltkrieges”, *Geschichte in Wissenschaft und Unterricht*, xxxvi (1985), pp. 469-500.

¹² G. Schmidt, “Contradictory Postures and Conflicting Objectives: The July Crisis”, in Schöllgen (ed.), *Escape into War?*, pp. 143 ff.; V. R. Berghahn, *Germany and the Approach of War in 1914* (London, 1973), pp. 139 f., 191 f., 200; Geiss, *July 1914*, pp. 122 ff., doc. 30. See N. C. Ferguson, “Germany and the Origins of the First World War: New Perspectives”, *Hist. J.*, xxxv (1992), pp. 727-32.

¹³ Geiss, *July 1914*, p. 327 f., doc. 162; p. 343, doc. 170; p. 347, doc. 175; p. 356, doc. 183; p. 359, doc. 186. Cf. Z. S. Steiner, *Britain and the Origins of the First World War* (London, 1977), pp. 215-41.

port by Germany. The Germans pressed on, urging the Austrians to make haste, and, after 26 July, openly rejecting diplomatic alternatives. Only at the eleventh hour did they begin to lose their nerve: the Kaiser first, on 28 July, and then Bethmann who, after hearing of Grey's warning to Lichnowsky of 29 July, frantically sought to persuade the Austrians to apply the brakes.¹⁴

It was the German military which ultimately secured, by a combination of persuasion and defiance, the mobilization orders, the ultimatums and declarations of war which unleashed the conflict.¹⁵ It has, of course, been argued that there was justification for the German decision to mobilize, on the grounds that, once the Russians had begun to mobilize, any delay would be fatal.¹⁶ However, the Russians and Austrians both attempted to keep diplomatic channels open, and the Russian argument that their mobilization was not the same as German mobilization, and did not mean war, was privately accepted by Moltke and Bethmann.¹⁷ By 27 July it is clear that the Germans' principal concern was, as Müller put it, "to put Russia in the wrong and then not to shy away from war" — in other words, to portray the fact of Russian mobilization as evidence of an attack on Germany.¹⁸ Behind this smokescreen, the German General Staff wished to launch a "preventive war" — or, to be precise, a pre-emptive "first-strike". This was a strategy which had repeatedly been rejected in the past.¹⁹ However, during the summer of 1914, Moltke succeeded in convincing the Kaiser and the civilian politicians that, as a result of new armaments programmes in France and, above all, Russia, Germany would be at their mercy within a few years. Moltke put the case to Conrad at Carlsbad in May 1914: "To

¹⁴ These events are best followed in Geiss, *July 1914*, pp. 110–49, 238–351. A good recent summary is provided by Schmidt, "Contradictory Postures and Conflicting Objectives", *passim*.

¹⁵ Geiss, *July 1914*, pp. 282 ff., doc. 125.

¹⁶ See L. C. F. Turner, "The Russian Mobilisation in 1914", *Jl. Contemporary Hist.*, iii (1968), pp. 65–88; D. C. B. Lieven, *Russia and the Origins of the First World War* (London, 1983), pp. 139–48.

¹⁷ Geiss, *July 1914*, pp. 340 ff., doc. 168; p. 344, doc. 171; pp. 266, 270, 364; Berghahn, *Germany and the Approach of War*, p. 207.

¹⁸ Berghahn, *Germany and the Approach of War*, p. 205 f.; Geiss, *Der lange Weg in die Katastrophe*, p. 320; H. Pogge von Strandmann, "Germany and the Coming of War", in H. Pogge von Strandmann and R. J. W. Evans (eds.), *The Coming of the First World War* (Oxford, 1988), p. 120. See also B. F. Schulte, *Europäische Krise und Erster Weltkrieg: Beiträge zur Militärpolitik des Kaiserreichs, 1871–1914* (Frankfurt, 1983), p. 207.

¹⁹ Geiss, *July 1914*, pp. 45, 48.

wait any longer meant a diminishing of our chances; as far as manpower is concerned we cannot enter into a competition with Russia"; and repeated it to Jagow a few weeks later: "Russia will have completed her armaments in two or three years. The military superiority of our enemies would be so great that he did not know how we might cope with them. In his view there was no alternative to waging a preventive war in order to defeat the enemy as long as we could still more or less pass the test".²⁰ On 21 June 1914, following a banquet in Hamburg, the German emperor Wilhelm II echoed this analysis in a conversation with the banker Max Warburg,²¹ and one can trace the spread of the idea in the diplomatic documents via Waldersee, Riezler, to Bethmann, to Jagow, to Lichnowsky, to Theodor Wolff: "The Russians . . . were not ready with their armaments, they would not strike; in two years' time, if we let matters slide, the danger would be much greater than at present".²² When Moltke returned to Berlin on 26 July, therefore, the ground had already been well prepared for his argument: "We shall never again strike as well as we do now, with France's and Russia's expansion of their armies incomplete".²³ More important than the diplomatic calculation, in other words, was the second, military calculation, that the Schlieffen Plan was the only remedy for otherwise inevitable military decline.

It has been suggested that this argument was disingenuous.²⁴ However, there is no question that, measured in terms of manpower, Germany was falling behind. This was an inferiority with deep roots. Although the German army's peacetime strength had risen from around 588,000 in 1904 to 761,000 in 1914, the forces of Russia and France had grown more rapidly. In 1904, the combined Franco-Russian strength had exceeded the Austro-German by just 260,982. By 1914, the gap was estimated to be

²⁰ Berghahn, *Germany and the Approach of War*, pp. 164-7; Geiss, *July 1914*, pp. 65-8, docs. 3, 4.

²¹ "Jahresbericht 1914", p. 1 f., M. M. Warburg & Co., Hamburg, Max Warburg Papers, Jahresbericht 1914 file; M. M. Warburg, *Aus meinen Aufzeichnungen* (printed privately, n.d.), p. 29. Cf. E. Zechlin, "Bethmann Hollweg, Kriegsrisiko und SPD 1914", *Der Monat* (Jan. 1966), p. 21; A. Hillgruber, *Germany and the Two World Wars* (Cambridge, Mass., 1981), p. 38; Fischer, *War of Illusions*, p. 471.

²² T. Wolff, *The Eve of 1914* (London, 1935), p. 448.

²³ Berghahn, *Germany and the Approach of War*, p. 203.

²⁴ Fischer, *War of Illusions*, pp. 461-70; Pogge, "Germany and the Coming of War", p. 118 f.

over a million.²⁵ This meant that, at its full wartime strength, the German army totalled around 2.15 million men, to which could be added 1.4 million Habsburg troops, whereas, on a war footing, the combined forces of Serbia, Russia, Belgium, France and England numbered 5.4 million.²⁶ The growing disadvantage had its roots in the numbers of men called up annually. According to the German General Staff in 1911, 83 per cent of those eligible for military service in France performed it, compared with 53 per cent in Germany.²⁷ The comparable figure for Austria-Hungary was 29 per cent.²⁸ As Schlieffen commented to Moltke, "We constantly puff about our high population . . . but the masses are not trained and armed to the full, usable extent".²⁹ It is true that his nightmare of a Russian attack on Germany lacked credibility, and that the Germans underestimated their own qualitative advantages, but the spectre of inexorably diminishing diplomatic bargaining power was plausible.³⁰ There is certainly no need to posit, as Fischer continues to, pre-existing German war plans to create spheres of influence in central Europe and Africa, to destroy France as a power, and to carve up Russia's western empire.³¹ The evidence points far more persuasively to a bid to pre-empt a deterioration in Germany's military position by inflicting swift defeats on France and Russia — though this is by no means incompatible with the idea that the outcome of such a strike, if successful, would be German hegemony in Europe.

But why, if the Germans were right to think that their military position was deteriorating, did they not seek to rectify the deterioration by increasing their defence capability? If one begins by

²⁵ Figures from Reichsarchiv, *Der Weltkrieg, 1914-1918*, i, *Die militärischen Operationen zu Lande* (Berlin, 1925), p. 38 f.; S. Förster, *Der doppelte Militarismus: Die deutsche Heeresrüstungspolitik zwischen Status-quo-Sicherung und Aggression, 1890-1913* (Stuttgart, 1985), pp. 28, 37, 96 f., 129, 190, 248; A. Bucholz, *Moltke, Schlieffen and Prussian War Planning* (New York and Oxford, 1991), pp. 62, 67, 159; Berghahn, *Germany and the Approach of War*, p. xii; Joll, *Origins of the First World War*, p. 72; *Statistisches Jahrbuch für das Deutsche Reich* (Berlin, 1914), p. 343; J. Snyder, *The Ideology of the Offensive: Military Decision-Making and the Disasters of 1914* (Ithaca, 1984), pp. 42, 107.

²⁶ Reichsarchiv, *Der Weltkrieg*, p. 22.

²⁷ *Ibid.*, p. 11 f.; Förster, *Doppelte Militarismus*, p. 205.

²⁸ P. M. Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (London, 1988), p. 307. Cf. G. E. Rotheberg, *The Army of Francis Joseph* (West Lafayette, 1976).

²⁹ Förster, *Doppelte Militarismus*, p. 164.

³⁰ See N. Stone, *The Eastern Front, 1914-1917* (London, 1975), pp. 17-42.

³¹ F. Fischer, "The Foreign Policy of Imperial Germany and the Outbreak of the First World War", in Schöllgen (ed.), *Escape into War?*, p. 37.

considering the extent of Germany's economic resources, the reason for this is far from obvious. The work of Paul Kennedy, in particular, has done much to propagate the idea of economics as one of the "realities behind diplomacy".³² In his terms, it is true, the Dual Alliance was no match for the Triple Entente: it was 46 per cent of its size in terms of population and 61 per cent of its size in terms of GNP,³³ and higher levels of capital export and emigration gave Britain significantly greater political leverage overseas. Moreover, taking the more important indicators of growth rates between 1890 and 1913 (neglected by Kennedy), Russian population, GNP and iron and steel production were all growing faster than those of Germany. On the other hand, German exports were growing faster than its European rivals, its gross domestic capital formation was the highest in Europe, and in terms of population (1.34 per cent), GNP (2.78 per cent) and steel production (6.54 per cent) it was growing substantially faster than Britain and France. In economic terms, Germany was certainly far from being a power in decline.³⁴ Max Warburg's argument for patience in June 1914 was not unjustified: "We are growing stronger every year".³⁵

Germany thus had, in theory, the option to respond to the Russian threat by increasing its military power. Moreover, as is notorious, there was no shortage of "militarist" sentiment in Germany to support such a course of action.³⁶ Yet the correct measure of military capability is not the rate of economic growth or the degree of popular bellicosity, but the proportion of national product spent on defence in peacetime — a proportion which is not fixed, in the manner of the "externally fixed opportunities and limitations" of geopolitics, but which is politically determined. In 1984, at a time of superpower confrontation, Britain spent around 5.3 per cent of GDP on defence; in 1992, that proportion was around 4 per cent. By contrast, the Soviet Union probably accelerated its own collapse by devoting over 15 per

³² Cf. P. M. Kennedy, *The Realities behind Diplomacy: Background Influences on British External Policy, 1865-1980* (London, 1981).

³³ Kennedy, *Rise and Fall of the Great Powers*, pp. 249-354.

³⁴ This paragraph is based on calculations from statistics in B. R. Mitchell, *European Historical Statistics, 1750-1975* (London, 1981); The Economist, *Economic Statistics, 1900-1983* (London, 1985); P. Bairoch, "Europe's Gross National Product, 1800-1975", *Jl. European Econ. Hist.*, v (1976), pp. 281, 303.

³⁵ See above, n. 21.

³⁶ See, e.g., J. Dülffer and K. Holl, *Bereit zum Krieg: Kriegsmoralität im wilhelminischen Deutschland, 1890-1914* (Göttingen, 1986).

cent of total output to defence.³⁷ German peacetime defence spending has fluctuated widely in the past hundred and twenty years, from as little as 1 per cent in the Weimar years (and just 1.9 per cent in 1991) to as much as 20 per cent before the Second World War.³⁸ In the years before 1914, as Figure 1 shows, the German, French, Russian and British military budgets were not separated by much in absolute terms (setting aside the impact of the Boer War and the Russo-Japanese War), with Germany outstripping her rivals only between 1908 and 1911.³⁹ France was clearly lagging after 1900, but given the low absolute level of Austro-Hungarian defence spending, and the imbalance in the alliance system, this was not enough to ensure German security. Indeed, in terms of percentages of GNP, it was Germany which consistently lagged behind France and Russia, as Figure 2 shows. In 1913 — after two major army bills — the Reich was spending 3.5 per cent of GNP on defence:⁴⁰ more than Britain (3.1 per cent) and her own ally Austria-Hungary (2.8 per cent), but less than France (3.9 per cent) and Russia (4.6 per cent).⁴¹ Only

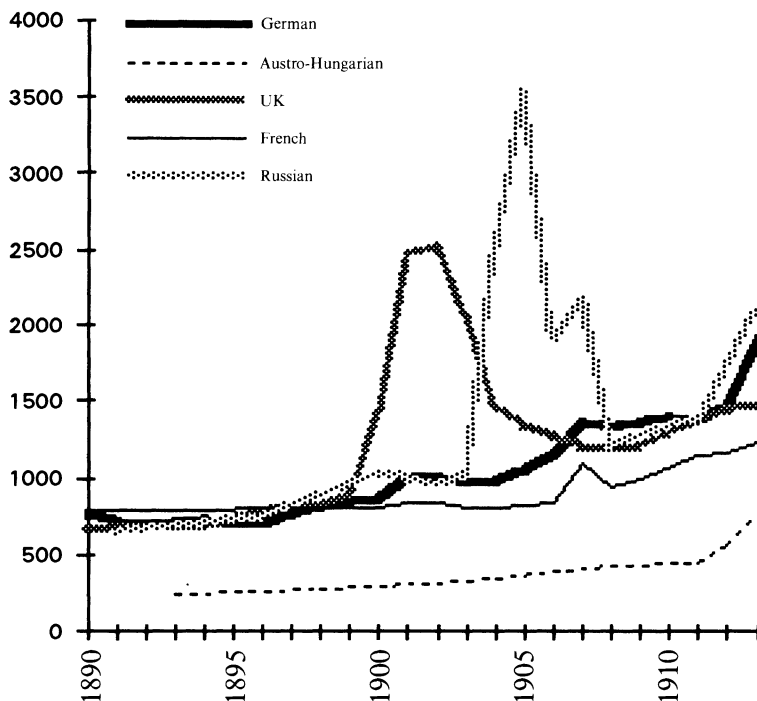
³⁷ Figures from Stockholm International Peace Research Institute, *Yearbook 1992: World Armaments and Disarmament* (Oxford, 1992), pp. 264–8; International Institute of Strategic Studies, *The Military Balance, 1992–1993* (London, 1992), pp. 218–21.

³⁸ S. Andic and J. Veverka, “The Growth of Government Expenditure in Germany since the Unification”, *Finanzarchiv*, xxiii (1964), p. 262 f.; V. R. Berghahn, *Modern Germany: Society, Economics and Politics in the Twentieth Century* (Cambridge, 1982), p. 296.

³⁹ Of course, it is far from easy to produce comparable statistics on defence spending or GNP for the period before the First World War (Table 1 shows the wide range of available figures for 1913 alone), and the data presented here can only be regarded as the least implausible.

⁴⁰ Estimates of German defence spending in 1913/14 vary from Roesler’s 1664 million marks (3.0 per cent of GNP) to Witt’s 2406 million marks (4.4 per cent of NNP). The figures worthy of consideration are: Andic and Veverka, “Growth of Government Expenditure in Germany”, pp. 189, 205, 263; P.-C. Witt, *Die Finanzpolitik des Deutschen Reiches, 1903–1913* (Lübeck, 1970), p. 380 f.; D. E. Schremmer, “Taxation and Public Finance: Britain, France and Germany”, in P. Mathias and S. Pollard (eds.), *The Cambridge Economic History of Europe*, viii, *The Industrial Economies: The Development of Economic and Social Policies* (Cambridge, 1989), p. 474; V. Hentschel, *Wirtschaft und Wirtschaftspolitik im wilhelminischen Deutschland: Organisierter Kapitalismus und Interventionsstaat?* (Stuttgart, 1978), p. 149; K. Roesler, *Die Finanzpolitik des Deutschen Reiches im Ersten Weltkrieg* (Berlin, 1967), p. 195; *Statistisches Jahrbuch für das Deutsche Reich* (Berlin, 1914), pp. 348–55.

⁴¹ See Table 2. My figures and calculations differ in some respects from the data assembled by N. Choucri and R. C. North at the University of Michigan, J. D. Singer and M. Small (also at Michigan), and J. A. Hall and J. M. Hobson at McGill University, summarized in A. Offer, “The British Empire, 1870–1914: A Waste of Money?”, *Econ. Hist. Rev.*, new ser., xli (1993), pp. 215–38. However, their figures confirm the essential point about Germany’s relative position.



1. DEFENCE SPENDING 1890-1913 (IN MILLIONS OF MARKS)

Statistical Sources Used for Graphs in Figures 1-4 and Tables 1 and 2

General

P. Bairoch, "Europe's Gross National Product, 1800-1975", *Jl. European Econ. Hist.*, v (1976), pp. 281, 303; B. R. Mitchell, *European Historical Statistics, 1750-1975* (London, 1981), pp. 817-39, 733; The Economist, *Economic Statistics, 1900-1983* (London, 1985); D. E. Schremmer, "Taxation and Public Finance: Britain, France and Germany", in P. Mathias and S. Pollard (eds.), *The Cambridge Economic History of Europe*, viii, *The Industrial Economies: The Development of Economic and Social Policies* (Cambridge, 1989).

Germany

S. Andic and J. Veverka, "The Growth of Government Expenditure in Germany since the Unification", *Finanzarchiv*, xxiii (1964), pp. 189, 205, 263; P.-C. Witt, *Die Finanzpolitik des Deutschen Reiches, 1903-1913* (Lübeck, 1970), p. 380 f.; V. Hentschel, *Wirtschaft und Wirtschaftspolitik im wilhelminischen Deutschland: Organisierter Kapitalismus und Interventionsstaat?* (Stuttgart, 1978), p. 149; K. Roesler, *Die Finanzpolitik des Deutschen Reiches im Ersten Weltkrieg* (Berlin, 1967), p. 195; *Statistisches Jahrbuch für das Deutsche Reich* (Berlin, 1914), pp. 348-55.

(cont. on p. 151)

Great Britain

C. H. Feinstein, *National Income, Expenditure and Output of the United Kingdom, 1855-1965* (Cambridge, 1972); A. T. Peacock and J. Wiseman, *The Growth of Public Expenditure in the United Kingdom* (Princeton, 1961), pp. 151-201; Schremmer, "Taxation and Public Finance", pp. 315-63, 364-406; L. E. Davis and R. A. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism, 1860-1912* (Cambridge, 1986), p. 160 f.; P. K. O'Brien, "The Costs and Benefits of British Imperialism, 1846-1914", *Past and Present*, no. 120 (Aug. 1988), pp. 163-200; P. M. Kennedy and P. K. O'Brien, "Debate: The Costs and Benefits of British Imperialism, 1846-1914", *Past and Present*, no. 125 (Nov. 1989), pp. 186-99.

France

M. Levy-Leboyer and F. Bourignon, *L'économie française au XIXe siècle: analyse macro-économique* (Paris, 1985), pp. 320 ff.; R. Delarme and C. André, *L'état et l'économie: un essai d'explication de l'évolution des dépenses publiques en France* (Paris, 1983), pp. 50, 721-7, 733; A. Straus, "Le financement des dépenses publiques dans l'entre-deux-guerres", in P. Fridenson and A. Straus (eds.), *Le capitalisme français, 19e-20e siècle: blocages et dynamismes d'une croissance* (Paris, 1987), pp. 50, 97.

Russia

P. R. Gregory, *Russian National Income, 1885-1913* (Cambridge, 1982), pp. 58 f., 252, 261 ff.; V. Gatrell, *The Tsarist Economy, 1850-1917* (London, 1986), pp. 214-22.

Austria-Hungary

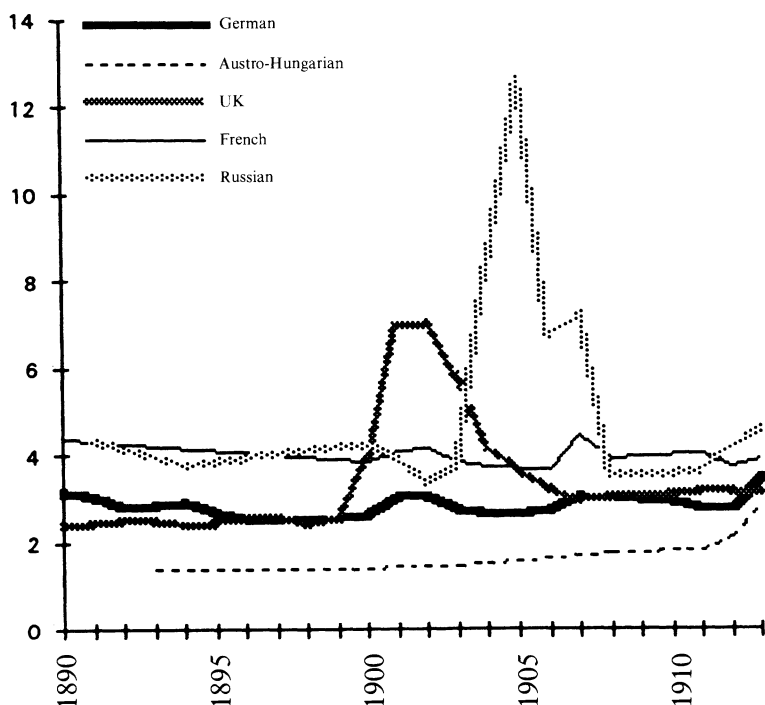
J. Wysocki, "Die österreichische Finanzpolitik", in A. Wandruszka and P. Urbanitsch (eds.), *Die Habsburger Monarchie, 1848-1918*, i (Vienna, 1973), pp. 68-104; A. Paulinyi, "Die sogenannte gemeinsame Wirtschaftspolitik Österreich-Ungarns", *ibid.*, pp. 567-604; E. März, *Austrian Banking and Financial Policy: Creditanstalt at a Turning Point, 1913-1923* (London, 1984), pp. 26-30, 99; J. van Walrè de Bordes, *The Austrian Crown* (London, 1924), p. 232 f.; J. Komlos, *The Habsburg Monarchy as a Customs Union: Economic Development in Austria-Hungary in the Nineteenth Century* (Princeton, 1983), pp. 153, 176.

Note

These figures are intended to up-date those in Q. Wright, *A Study of War* (Chicago, 1942), p. 670 f.; A. J. P. Taylor, *The Struggle for Mastery in Europe, 1848-1918* (Oxford, 1954), p. xxviii; L. F. Richardson, *Arms and Insecurity* (London, 1960), p. 87. Of course, it is a notoriously difficult exercise to arrive at figures for GNP and defence spending which are comparable because of differing styles of national and budgetary accounting. For example, it has been necessary to adjust German and Russian figures for NNP by adding 4% to arrive at figures for GNP. The choice of defence spending statistics is discussed in the text. By way of a control, I also constructed a series for defence spending from the data in *The Statesman's Yearbook* for the years 1900 to 1914, which exclude British colonial spending, but include substantial expenditures on the Russo-Japanese War unavailable in Gregory's data. For 1913, the percentages of GNP are rather different than those derived from the most recent data: Germany 3.6%, Britain 3.1%, France 3.7%, Russia 4.6% and Austria-Hungary 2.0%. However, the superior defence "effort" of the Triple Entente remains obvious.

TABLE 1
DEFENCE BUDGETS IN 1913: AVAILABLE FIGURES (IN £ MILLION)

	Germany	Austria-Hungary	United Kingdom	France	Russia
<i>Statesman's Yearbook, 1914</i> , pp. 41-63, 638-43, 654, 668, 822-30, 899-907, 1239-41	£97.80	£19.60	£80.39	£60.22	£102.78
Richardson, <i>Arms and Insecurity</i> , pp. 82-7	£88.70	£35.20	£78.00	£62.00	£99.20
Taylor, <i>Struggle for Mastery in Europe</i> , p. xxviii	£110.80	£36.40	£76.80	£57.40	£88.20
Berghahn, <i>Germany and the Approach of War</i> , n.p.	£60.00	£22.00	£50.00	£37.00	£67.00
Schrenner, "Taxation and Public Finance", p. 474 f.	£79.54		£77.18	£61.74	
Kennedy, "Costs and Benefits of British Imperialism", p. 191	£88.00	£37.00	£67.00	£66.00	£85.00
<i>Statistisches Jahrbuch, 1914</i> , pp. 348-55	£102.54				
Andic and Veverka, "Growth of Government Expenditure", pp. 189, 205, 263	£89.04				
Roesler, <i>Finanzpolitik</i> , p. 195	£81.46				
Hentschel, <i>Wirtschaft</i> , p. 149	£99.76				
Witt, <i>Finanzpolitik</i> , p. 380	£117.79				
Koellner, cit. Berghahn, <i>Germany and the Approach of War</i> , p. 296	£113.17				
Paulinyi, "Wirtschaftspolitik", p. 574 f.		£37.88			
Peacock and Wiseman, <i>Growth of Public Expenditure</i> , p. 168			£91.30		
Davis and Huttenback, <i>Mammon and the Pursuit of Empire</i> (1910-12), p. 160 f.			£71.20		
Delarme and André, <i>L'état et l'économie</i> , pp. 721-7				£69.47	
Gregory, <i>Russian National Income</i> , p. 252					£102.54



2. DEFENCE SPENDING AS PERCENTAGE OF GNP 1890-1913

domestic politics can explain why successive governments after 1895 consistently failed to close that gap.

At root, the explanation lies in the fundamental ambivalence of the relationship between Prussia, the largest of the twenty-five German states, and the federal Reich created in 1871. The traditional view of the Reich is of symbiosis: "Greater Prussia", or "Prussia-Germany". But when the question arose of whether to expand the Reich's military establishment and fiscal system, the response of Prussian bureaucrats and generals tended to be hostile. Historians have long been familiar with the arguments within the military establishment against expanding the army — "to keep the army intact", as Waldersee put it in 1897.⁴² Put simply, that meant keeping the percentage of officers from aristocratic families at around 60 per cent, and the percentage of NCOs and recruits from rural areas at the same level, so as to exclude

⁴² Förster, *Doppelte Militarismus*, p. 92.

TABLE 2

THE FINANCIAL BURDENS OF DEFENCE IN 1913/14

	Germany*	Austria-Hungary	Great Britain	France	Russia	Ludendorff's Germany
Population (000s)	66978	49458	45648	39200	171000	66978
Peacetime army (000s)	761	478	248	827	1445	944
GNP (million marks)	54540	27440	47663	31462	45526	54540
GNP per capita (marks)	814	555	1044	786	266	814
Spending by central and state government (million marks)	6502	5339	3446	4104	7307	7366
As above as % of GNP	11.9	19.4	7.2	13	16	13.5
As above per capita (marks)	52	108	76	105	43	110
Total defence spending (million marks)	1909	774	1865	1670	2095	2773
As above as % of GNP	3.5	2.8	3.1	3.9	4.6	5.1
As above per capita (marks)	28	16	32	31	12	41
As above as % of central and state government spending	29.4	15	42.9	30	28.7	37.6
Central and state government debt (million marks)	21679	10204	12769	26711	29160	22543
As above as % of GNP	39.8	37.2	26.8	84.9	64	41.3
As above per capita (marks)	324	206	303	681	170	337
Debt service of central government (million marks)	802	554	382	1042	916	834
Defence plus debt service (million marks)	2711	1327	1863	2272	3011	3607
As above as % of GNP	5	4.8	3.9	7.2	6.6	6.6
As above per capita (marks)	40	27	41	58	18	54
As above as % of central and state government spending	42	24.8	54.1	55.4	41.2	49
Total direct tax revenue of central and state government† (million marks)	843.7	592	1579.4	625.3	n/a	1802.7
As above as % of GNP	1.5	2.2	3.3	2	n/a	3.3
As above per capita (marks)	13	12	35	16	n/a	27
As above as % of central and state government revenue	13	5.8	45.8	15.2	n/a	24.5

Notes: In "Ludendorff's Germany" the figures for increased debt and debt service and those for increased taxation are alternatives.

*For Germany, central and state government are counted as equivalent to British, French and Russian central government. For Austria-Hungary, the joint and separate budgets of the Habsburg and Hungarian territories are counted; but not the (relatively unimportant) Laender budgets of each.

†Excludes stamp taxes.

those "democratic and other elements, unsuitable for the [military] estate".⁴³ The conservative aversion to expansion was certainly the main reason for the stagnation of the army's size between 1897 and 1912, when the navy was allowed to take priority, but inertia alone could not arrest a gradual social dilution, most marked in the increasingly "bourgeois" General Staff.⁴⁴ The most dynamic figure of the new military "meritocracy" was Erich Ludendorff, whose "Great Memorandum" of December 1912 called for putting an additional 30 per cent of those eligible through military service (increasing the call-up rate from 52 per cent to 82 per cent — that is, to the French level): a total annual increase of 300,000 recruits. To the military conservatives in the War Ministry, the radical connotations of Ludendorff's plan were clear.⁴⁵ Denouncing it as a blueprint for "democratization" of the army, the war minister Heeringen secured his demotion to a regimental command in Düsseldorf, and drew up an alternative army bill for an increase of just 117,000 troops.⁴⁶

However, the obstacles to an expansion of the army along the lines envisaged by Ludendorff were not confined to the conservatives in the Prussian War Ministry. Because of their financial implications, proposals for increased military spending threw into relief the defective nature of the Reich's political structure.⁴⁷ The obstacles to a bigger defence budget existed at two levels. First, there were those stemming from Germany's peculiar federal

⁴³ *Ibid.*, p. 133.

⁴⁴ Bucholz, *Moltke, Schlieffen and Prussian War Planning*, p. 133. See G. A. Craig, *The Politics of the Prussian Army, 1640-1945* (Oxford, 1955), pp. 232-8; U. Trumpener, "Junkers and Others: The Rise of Commoners in the Prussian Army, 1871-1914", *Canadian J. Hist.*, iv (1979), pp. 29-47; D. Bald, *Vom Kaiserheer zur Bundeswehr: Sozialstruktur des Militärs: Politik der Rekrutierung von Offizieren und Unteroffizieren* (Frankfurt am Main and Bern, 1981).

⁴⁵ Förster, *Doppelte Militarismus*, p. 268 f.

⁴⁶ H. Herzfeld, *Die deutsche Rüstungspolitik vor dem Weltkriege* (Bonn and Leipzig, 1923); G. Ritter, *The Sword and the Sceptre: The Problem of Militarism in Germany*, ii, *The European Powers and the Wilhelminian Empire, 1890-1914* (Coral Gables, 1970), pp. 222-6; M. Geyer, *Deutsche Rüstungspolitik, 1860-1980* (Frankfurt am Main, 1984), pp. 90-3; V. R. Berghahn and W. Deist (eds.), *Rüstung im Zeichen der wilhelminischen Weltpolitik: Grundlegende Dokumente, 1890-1914* (Düsseldorf, 1988); J. R. Dukes, "Militarism and Arms Policy Revisited: The Origins of the German Army Law of 1913", in J. R. Dukes and J. Remak (eds.), *Another Germany: A Reconsideration of the Imperial Era* (Boulder, 1988), pp. 19-35.

⁴⁷ See Witt, *Finanzpolitik, passim*; Berghahn, *Germany and the Approach of War*, p. 74; V. R. Berghahn, "Das Kaiserreich in der Sachgasse", *Neue Politische Literatur*, xvi (1971), pp. 494 ff.; W. J. Mommsen, "Die latente Krise des Deutschen Reiches, 1909-1914", in *Handbuch der deutschen Geschichte*, iv, pt 1, pp. 3 ff.

structure, which left the Reich significantly smaller than the sum of its parts, particularly in financial terms. The states retained control in many spheres of government activity — education, police, public health, tax collection — while at the same time establishing an effective monopoly on direct taxation, and attempts by Bismarck to shift the balance in favour of the Reich were constantly frustrated.⁴⁸ Thus, while the states (and the local communes) were able to modernize their fiscal systems by introducing income taxes,⁴⁹ the Reich remained almost entirely dependent (for 90 per cent of its revenue) on the old taxes on consumption and imports. The attempt by successive state secretaries at the Treasury to secure some share of the direct tax take was a crucial theme of politics between 1903 and 1912, culminating in the confrontation between Bethmann and the Bundesrat in December 1912, in which he threatened to use Social Democrat votes to pass the government's Reich capital gains tax. Yet even after the Prussian and Saxon capitulation on this issue, it remained the case that the Reich received only around a third of total public revenues.⁵⁰

The second — and for historians most controversial — problem of Reich finance was the role of parliamentary institutions, particularly the Reichstag. There remains a profound division between those, like Wehler and Witt, who see the Reichstag's power over finance as extremely limited — part of the Reich's "sham constitutionalism" — and those, notably Rauh, who argue for a gradual process of parliamentarization before 1914 — albeit

⁴⁸ J. von Kruedener, "The Franckenstein Paradox in the Intergovernmental Fiscal Relations of Imperial Germany", in P.-C. Witt, *Wealth and Taxation in Central Europe: The History and Sociology of Public Finance* (Leamington Spa, 1987), pp. 111-23; Witt, *Finanzpolitik*, pp. 15 ff.; Hentschel, *Wirtschaft und Wirtschaftspolitik*, pp. 174 ff. Cf. W. Gerloff, *Die Finanz- und Zollpolitik des Deutschen Reiches, 1867-1913* (Jena, 1913); F. Terhalle, "Geschichte des deutschen Finanzwirtschaft vom Beginn des 19. Jahrhunderts bis zum Schluss des Zweiten Weltkrieges", in W. Gerloff and F. Neumark (eds.), *Handbuch der Finanzwissenschaft* (Tübingen, 1952), pp. 274-89.

⁴⁹ Saxony in 1874, Baden in 1884, Prussia in 1892, Württemberg in 1903 and Bavaria in 1912: Schremmer, "Taxation and Public Finance", pp. 488 ff. The communes, which accounted for around 40 per cent of total public expenditure by 1913, also relied increasingly on income tax; by 1910, 52 per cent of Prussian local government revenue came from surcharges on the state income tax: V. Hentschel, "German Economic and Social Policy, 1815-1939", in Mathias and Pollard (ed.), *Cambridge Economic History of Europe*, viii, p. 163 f.

⁵⁰ See R. Kroboth, *Die Finanzpolitik des Deutschen Reiches während der Reichskanzlerschaft Bethmann Hollwegs und die Geld- und Kapitalmarktverhältnisse (1909-1913/14)* (Frankfurt am Main, 1986).

without the English system of ministerial responsibility to parliament.⁵¹ Certainly, it would have been odd if the minister appointed by Wilhelm I to resist "any kind of restriction imposed on the strength of the army" by the Prussian Diet in the 1860s had proceeded to concede unqualified control of the military budget to the Reichstag in the 1870s. But historians, following left-liberal critics at the time, have frequently exaggerated the effectiveness of the qualifications Bismarck was able to place on the Reichstag's budget right. It is true that, under article 63 of the constitution, the emperor "determine[d] the peacetime strength, the structure and distribution of the army". However, the question of financing what he determined was more complex. Between 1867 and 1874 the issue was put off, under a temporary rule that the army would be equivalent in size to 1 per cent of the Reich population, but article 62 of the constitution clearly stated that changes in the military budget would need the agreement of the legislature. The final decision fell far short of the Prussian monarch's ideal of an "eternal" defence budget: separate seven-year (later five-year) military budgets, removing defence spending from the annual budget but not from the Reichstag's control. The Reichstag thus could and did amend government finance bills and, despite occasional threatening noises, the most that the executive ever did in reply was to call a general election (as in December 1906).⁵² In practice, therefore, if the government wished to spend more on defence — or on its civil functions — the Reichstag's approval was needed for both the expenditure and, if it exceeded existing revenues, the means of financing it. But the fact that the Reichstag was the most democratic of imperial Germany's representative assemblies, while the separate states retained various forms of restricted franchise, created a peculiar impasse. A democratic assembly was in a position to influence the level of indirect taxes, to pay for mainly military expenditures, while more exclusive assemblies raised taxes on income and property for mainly social purposes. Governments

⁵¹ See Wehler, *German Empire*, pp. 52-65, 72-83; V. R. Berghahn, "Politik und Gesellschaft im wilhelminischen Deutschland", *Neue Politische Literatur*, xxiv (1979), pp. 168-73; and the contrary view in M. Rauh, *Föderalismus und Parlamentarismus im wilhelminischen Reich* (Düsseldorf, 1972); M. Rauh, *Die Parlamentarisierung des Deutschen Reiches* (Düsseldorf, 1977). See also D. Langewiesche, "Das deutsche Kaiserreich — Bemerkungen zur Diskussion über Parlamentarisierung und Demokratisierung Deutschlands", *Archiv für Sozialgeschichte*, xix (1979), pp. 628-42.

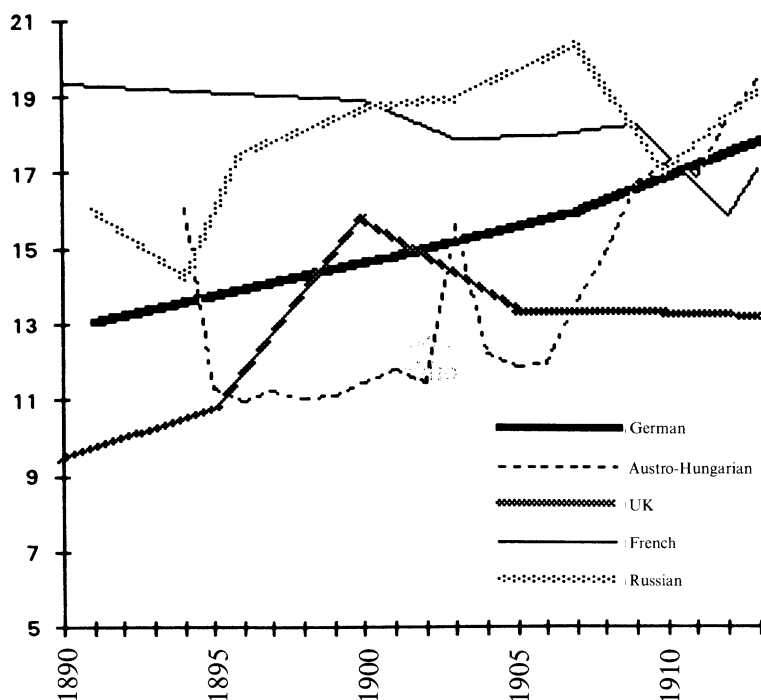
⁵² C. G. Crothers, *German Elections of 1907* (New York, 1941).

wishing to spend more on defence thus found themselves between the devil of particularist state governments and the deep blue — or rather red and black — sea of the popular Reichstag parties, the Centre and SPD, both of which could and did object to the way regressive taxes were used to finance militarism. Bismarck and his successors were ingenious in devising strategies to weaken these “anti-Reich” parties and strengthen the more “state-supporting” Conservative and National Liberal parties. But the common factor linking the construction of the navy and the acquisition of colonies — supposed “national acts” which would awaken patriotic feelings and reduce economic discontent — with more direct electoral bribes like tariffs, tax rebates and social insurance, was that they cost yet more money. Far from strengthening the government’s position, the ensuing debates on increased expenditure in fact tended to underline the Centre party’s pivotal position in the Reichstag and lent credibility to Social Democratic attacks on dear bread and militarism, while the revenue-raising options — increased Reich borrowing, the introduction of Reich direct taxation, or cuts in spending — tended to divide rather than unite the “government” parties.⁵³ Such were the contradictions of *Sammlungspolitik*. Again, matters came to a head between 1903 and 1912, when the determination of Bülow and Bethmann to finance increased military spending with at least some element of direct taxation drove a wedge between the government and the Conservative party. When the finance bill of June 1913 was passed with the votes of Social Democrats, Liberals and most of the Centre party against the two Conservative parties, it was seen on the Right as a victory for the “power-hungry Reichstag democracy” and a “move towards a democratically governed unitary state”.⁵⁴

It is against this institutional background that we must seek to assess the relative stagnation of German defence spending. The increase of public spending as a proportion of GNP was seen as

⁵³ For the debate on the effectiveness of *Sammlungspolitik*, see esp. D. Stegmann, *Die Erben Bismarcks: Parteien und Verbände in der Spätphase des wilhelminischen Deutschlands: Sammlungspolitik, 1897-1918* (Cologne, 1970); D. Stegmann, “Wirtschaft und Politik nach Bismarcks Sturz: Zur Genesis der Miquelschen Sammlungspolitik, 1890-1897”, in I. Geiss and B. J. Wendt (eds.), *Deutschland in der Weltpolitik des 19. und 20. Jahrhunderts: Fritz Fischer zum 65. Geburtstag* (Düsseldorf, 1973), pp. 161-84; and the critique by G. Eley, “Sammlungspolitik, Social Imperialism and the German Navy Law of 1898”, *Militär-geschichtliche Mitteilungen*, xv (1974), pp. 29-63.

⁵⁴ Kroboth, *Finanzpolitik*, p. 272 f.



3. PUBLIC SPENDING AS PERCENTAGE OF GNP 1890-1913

a generalized tendency in industrialized states from the late nineteenth century onwards: “the law of growing state expenditure”, as Adolph Wagner called it. However, as Figure 3 shows, in no state was the growth as steady as in Germany (from 13 per cent to 18 per cent of GNP),⁵⁵ while in France it actually fell. In the German case, the critical point is the growth of non-military spending, which in turn reflected the balance of fiscal power in the federal system. A tradition of state entrepreneurship in

⁵⁵ A. Wagner, *Grundlegung der politischen Ökonomie* (Leipzig, 1893), p. 895; H. Timm, “Das Gesetz der wachsenden Staatsausgaben”, *Finanzarchiv*, new ser., xxi (1961), pp. 201-47; Andic and Veverka, “Growth of Government Expenditure in Germany”, *passim*. A maximum estimate for the public sector’s share — including revenues from public sector enterprises, public borrowing and the social insurance system — shows it rising from 13.8 per cent in 1890 to 18.8 per cent in 1913: Hentschel, *Wirtschaftspolitik*, p. 148; cf. P.-C. Witt, “Finanzpolitik und sozialer Wandel: Wachstum und Funktionswandel der Staatsausgaben in Deutschland, 1871-1933”, in H.-U. Wehler (ed.), *Sozialgeschichte Heute: Festschrift für Hans Rosenberg* (Göttingen, 1974), pp. 565-74.

Germany meant that the Reich's states spent substantial amounts on railways and other infrastructure: such spending accounted for around half the Prussian budget in 1913. Secondly, expenditure at the state and communal level on social and educational facilities rose steadily, accounting for 28 per cent of total public spending in 1913. By contrast, defence spending actually fell as a share of total public spending from around 25 per cent to 20 per cent. This clearly reflected the states' access to more elastic sources of revenue. The ratio of direct to indirect taxation for total public revenues was around 57:43, but for the Reich alone only 14 per cent of revenue came from direct taxation, as a result of the inheritance tax and other minor property taxes introduced after 1903, whereas the major states were deriving between 40 and 75 per cent of their revenue from income tax by 1913.⁵⁶ The structural problem is even more apparent when one considers the traditionally neglected relationship between the public sector and the capital market, where the states — and, indeed, the communes — were in competition with the Reich. By 1913 the total public sector debt had grown to 32.8 billion marks: 51 per cent of this figure was state debt, compared with 16 per cent issued by the Reich and the remainder (33 per cent) by the communes.⁵⁷ The total public debt was equivalent to around 60 per cent of GNP, and persistent deficits at the Reich level led to an increase of short-term borrowing as a percentage of total indebtedness from 4 to 9 per cent. There is no doubt that this expansion of public borrowing imposed strains on the German economy. Not only did the rising burden of debt service (11 per cent of total public spending in 1913) add to tax bills, but high new bond issues were partly responsible for the differential between German and British or French interest rates and the embarrassingly low market quotation of existing bonds. When total issues of 1.28 billion marks of Reich and Prussian bonds in 1909/10 were poorly received on the Bourse, many foreign observers concluded with Wermuth that Germany's "financial armament" did not match its "military armament".⁵⁸

It is illuminating to compare the fiscal system of the German

⁵⁶ Schremmer, "Taxation and Public Finance", pp. 468-94.

⁵⁷ Figures from Kroboth, *Finanzpolitik*, pp. 489 ff. Cf. H. Stuebel, *Das Verhältnis zwischen Staat und Banken auf dem Gebiet des preussischen Anleihewesens von 1871 bis 1913* (Berlin, 1935).

⁵⁸ Kroboth, *Finanzpolitik*, p. 98. When the price of 4 per cent Reich bonds fell below that of 3.5 per cent Italian bonds, there was dismay in the press: *ibid.*, p. 235.

Reich with those of its ally and rivals. Austria-Hungary's dualist system in many ways suffered from similar problems, with its defence budget financed from the joint revenues from customs and additional (mainly Austrian) contributions, while other governmental functions were financed either by the two kingdoms, or by their subordinate states and communes. The effect of the system was that, despite a steady growth of total public spending of around 3.2 per cent per annum, increasing the public sector share in GNP from 11 per cent to 20 per cent, defence spending was just 2.8 per cent of combined GNP in 1913. 19 per cent of the Austrian state budget went on defence, but just 12 per cent of the Hungarian: one partner was not pulling its weight. Moreover Austria-Hungary had similar problems to the Reich on the revenue side: only 13 per cent of total revenues came from direct taxation, and, although the total level of public debt was only around 37 per cent of GNP, Böhm-Bawerk's charge that the monarchy was "living beyond its means" was borne out by the difficulty of selling government bonds.⁵⁹ Germany and its ally were thus fiscally constrained — above all, by their federal structures.

By contrast, the powers of the Triple Entente were, albeit to varying extents, centralized states with no more than two tiers of government. Moreover two of them had fought wars — and thus flexed their fiscal sinews — within the preceding fifteen years. British public spending rose at a rate of 3.8 per cent between 1890 and 1913, increasing the public sector share in GNP from 9.4 per cent to 13.1 per cent. However, central government accounted for 55 per cent of that spending, and defence spending in turn accounted for 43 per cent of total central government spending (compared with an equivalent German figure of 32 per cent). In other words, although in Britain as in Germany, political pressures had led to increased social spending, this had not been at the expense of military spending.⁶⁰ Moreover the

⁵⁹ J. Wysocki, "Die österreichische Finanzpolitik", in A. Wandruszka and P. Urbanitsch (eds.), *Die Habsburger Monarchie, 1848-1918*, i (Vienna, 1973), pp. 68-104; A. Paulinyi, "Die sogenannte gemeinsame Wirtschaftspolitik Österreich-Ungarns", *ibid.*, pp. 567-604; E. März, *Austrian Banking and Financial Policy: Creditanstalt at a Turning Point, 1913-1923* (London, 1984), pp. 26-30, 99; J. van Walrè de Bordes, *The Austrian Crown* (London, 1924), p. 232 f.; J. Komlos, *The Habsburg Monarchy as a Customs Union: Economic Development in Austria-Hungary in the Nineteenth Century* (Princeton, 1983), pp. 153, 176.

⁶⁰ A. T. Peacock and J. Wiseman, *The Growth of Public Expenditure in the United Kingdom* (Princeton, 1961), pp. 151-201. Cf. P. M. Kennedy, "Strategy versus

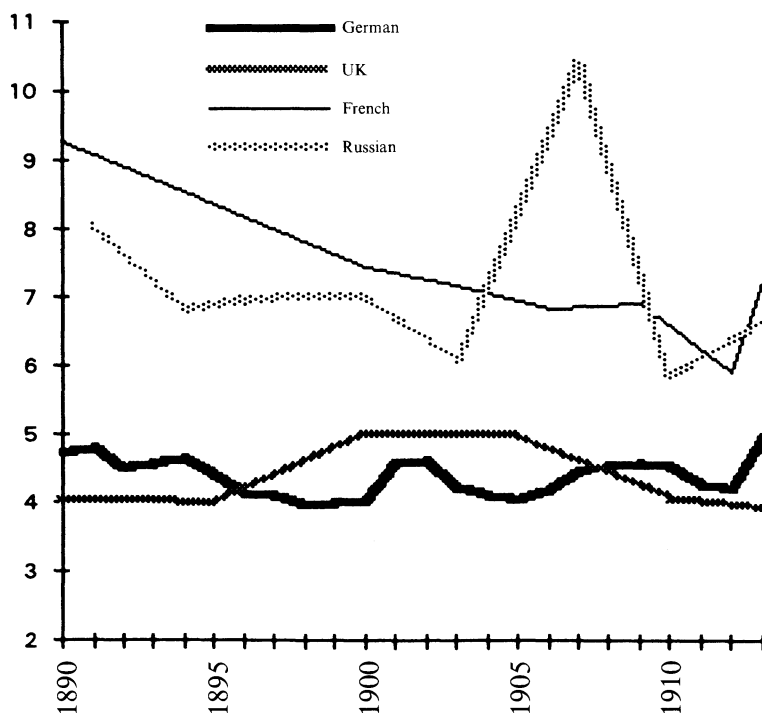
British revenue side was exceptionally robust: as a consequence of the reforming budgets of 1907 and 1909/10 — which had a far more decisive fiscal outcome than the comparable German finance bill of 1913 — the share of central government income from direct taxation had risen to 39 per cent. Where the Reich had tariffs, Great Britain had income tax, and Gustav Schmoller was not being facetious when he observed that Germans would be “jubilant” if they had “so adaptable a factor of revenue”. In addition, Britain had a system of public debt management of unequalled strength and institutional sophistication: reduced in peacetime (to just 27 per cent of GNP in 1913), it could easily be expanded, through the agencies of Treasury, Bank of England and the gilts market, to meet a military crisis.⁶¹ France was still more centralized, and of all the powers was the most successful in slowing the rise of public spending before 1914, to just 1.9 per cent per annum, allowing the public sector share of GNP to fall from its relatively high level of 19 per cent in 1890 to 17 per cent, a trend which reflected the political resistance to the introduction of income tax (only overcome in July 1914). Around 30 per cent of French public spending went on defence, and this was financed principally by indirect taxes and stamp taxes, and a singularly high level of public borrowing (total public debt was equivalent to 85 per cent of GNP in 1913).⁶² Finally, the Russian fiscal system was the most rapidly expanding (public spending grew at 6.1 per cent per annum between 1890 and 1913), the most centralized (with central government accounting for 84 per cent of all spending), but the most reliant on revenues from consumption taxes and railways, and the most dependent on

(n. 60 cont.)

Finance in Twentieth Century Britain”, *Internat. Hist. Rev.*, iii (1981), pp. 45-52; L. E. Davis and R. A. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism, 1860-1912* (Cambridge, 1986), p. 160 f.; A. L. Freidberg, *The Weary Titan: Britain and the Experience of Relative Decline, 1895-1905* (Princeton, 1988); P. K. O'Brien, “The Costs and Benefits of British Imperialism, 1846-1914”, *Past and Present*, no. 120 (Aug. 1988), pp. 163-200; P. M. Kennedy and P. K. O'Brien, “Debate: The Costs and Benefits of British Imperialism, 1846-1914”, *Past and Present*, no. 125 (Nov. 1989), pp. 186-99; Offer, “British Empire”, *passim*.

⁶¹ Schremmer, “Taxation and Public Finance”, pp. 315-63.

⁶² *Ibid.*, pp. 364-406; M. Levy-Leboyer and F. Bourguignon, *L'économie française au XIXe siècle: analyse macro-économique* (Paris, 1985), pp. 320 ff.; R. Delarme and C. André, *L'état et l'économie: un essai d'explication de l'évolution des dépenses publiques en France* (Paris, 1983), pp. 50, 721-7, 733; A. Straus, “Le financement des dépenses publiques dans l'entre-deux-guerres”, in P. Fridenson and A. Straus (eds.), *Le capitalisme français, 19e-20e siècle: blocages et dynamismes d'une croissance* (Paris, 1987), pp. 50, 97.



4. DEFENCE PLUS DEBT SERVICE AS PERCENTAGE OF GNP 1890-1913

foreign capital to fund its large public debt (equivalent to 64 per cent of GNP).⁶³ Figure 4 attempts to integrate some of this data in a simple index of fiscal “commitment”, combining the share of defence and debt service (much of which was in theory to finance past military spending) as a percentage of GNP. Here the difference between Germany and her continental rivals is especially marked.⁶⁴

Germany did not go to war in 1914 to “escape” from a domestic political crisis; rather, the significance of the financial wrangles of 1908-14 lies precisely in their financial insignificance: the

⁶³ P. R. Gregory, *Russian National Income, 1885-1913* (Cambridge, 1982), pp. 58-9, 252, 261 ff.; V. Gatrell, *The Tsarist Economy, 1850-1917* (London, 1986), pp. 214-22.

⁶⁴ It could perhaps be argued that a lower level of debt implied a greater future fiscal flexibility; but this was more true in the British case than the German, where increased Reich borrowing for defence would have been desirable *before* 1914, but was politically impossible.

meagre direct taxes voted by the Reichstag scarcely solved the public financial impasse. Kehr was thus in error when he suggested that Reich revenues were growing rapidly in 1912/13 and that, if it had been put to them, the "militarized and feudalized" members of the Reichstag could have passed Ludendorff's Great Memorandum programme.⁶⁵ On the contrary, it was domestic politics which limited the size of the German army before the First World War, and hence determined the degree of national security, and hence increased the willingness of Germany's leaders to gamble on a first-strike. It is true that, as a result of the legislation of 1912 and 1913, German defence spending was, in absolute terms, higher than British and French. However, as a percentage of GNP it was lower than that of both France and Russia. In per capita terms (28 marks) and as a share of public spending (excluding local government) (29 per cent), it was lower than that of France (31 marks; 30 per cent) and Britain (32 marks; 43 per cent). Moreover, if one adds the cost of debt service to the defence budgets of the four countries, the discrepancies grow still larger. Defence spending plus debt service in Germany amounted to 5 per cent of GNP, compared with 7.2 per cent in France and 6.6 per cent in Russia. In per capita terms, it was two-thirds of the French level — and as a percentage of non-local spending it was just 42 per cent, compared with 55 per cent in France and 54 per cent in Britain. Moreover the bulk of German debt service was on state loans, none of which had been raised to finance military spending. These differentials reflected fundamental constraints on German public finance. Unable to borrow as much as the Russian or French states, unable to raise as much in direct taxation as the British, and unable to reduce the large shares of the states and local government in total public revenue, the Reich could not win the arms races it engaged in with its rivals. Yet, as we have seen, it was precisely because of this that the war was ultimately initiated by the General Staff, on the grounds that a swift war of annihilation would compensate for German inferiority and prevent that inferiority growing worse. Since Germany was losing the arms race for the reasons described here, it therefore seems legitimate to think again about the domestic origins of the war.

Some contemporaries at least were aware of the problem.

⁶⁵ E. Kehr, "Klassenkämpfe und Rüstungspolitik im kaiserlichen Deutschland", in Kehr, *Primat der Innenpolitik*, esp. pp. 98 f., 110.

"What use is an army ready for action, a navy prepared for war, if we are let down by our finances?", asked the leading authority on the Reich's financial system, Wilhelm Gerloff,⁶⁶ while Chancellor Bülow spoke of the need "to convince the German people that morally and materially the [financial] reform is a matter of life and death".⁶⁷ "If one wants to live peacefully, one must also carry burdens, pay taxes; without that it simply cannot be done", argued the Army League journal, *Die Wehr*. The president of the Reichsbank, Havenstein, was no less explicit about the financial basis of deterrence: "We will only be able to preserve peace if we are not only militarily but also financially strong".⁶⁸ Yet political obstacles were insurmountable. "We have the people and the money", commented the Army League leader Keim in frustration: "We are lacking only in determination to place both at the service of the Fatherland".⁶⁹ The same problem could be seen from a Social Democrat perspective: "Some demand more ships, others clamour for more soldiers", commented Daniel Stückerlein: "If only other organisations could be founded whose goals would be to create the money necessary for these demands".⁷⁰ The government's dilemma was simple: "The financial burdens at present [are] too enormous for the economy to bear", wrote a Prussian War Ministry official in 1913, "and any [further] agitation would add grist to the mill of the Social Democrats".⁷¹ Domestic impasse led to strategic despair: "We just cannot afford a race in dreadnoughts against the much wealthier British", lamented Albert Ballin. "Under the inexorable constraints of the tightness of funds . . . justified demands of the Front had to be left unfulfilled", wrote the Kaiser. "The enemy is arming more strongly than we are, because money is so tight with us", was Moltke's succinct analysis.⁷²

Could Germany have been less "tight" with money — opting for security rather than gambling on a preventive first-strike? Two calculations suggest that, but for the political log-jam, it

⁶⁶ Kroboth, *Finanzpolitik*, p. 188.

⁶⁷ Berghahn, *Germany and the Approach of the First World War*, p. 83.

⁶⁸ R. Zilch, *Die Reichsbank und die finanzielle Kriegsvorbereitungen von 1907 bis 1914* (Berlin, 1987), p. 79.

⁶⁹ M. S. Coetzee, *The German Army League: Popular Nationalism in Wilhelmine Germany* (Oxford and New York, 1990), p. 28.

⁷⁰ *Ibid.*, p. 35.

⁷¹ *Ibid.*, p. 41.

⁷² Berghahn, *Germany and the Approach of the First World War*, pp. 74 ff., 83; Förster, *Doppelte Militarismus*, p. 253.

would have been economically possible. The 1913 army bill envisaged increasing the army by 117,000 men, at a cost of 1.9 billion marks over five years — with the additional burden on the 1913 budget amounting to 512 million marks. The original government bill envisaged that this was to be financed principally by a one-off “defence contribution” (effectively a forced loan raised on substantial property and incomes) and a capital gains tax levied progressively. On the basis of proportionality, the Ludendorff maximum plan (outlined in the Great Memorandum) for an increment of 300,000 men would have cost 4.9 billion marks over five years, which, for the year 1913/14, would have represented an additional 864 million marks of military spending. This would have increased the German defence budget by around 33 per cent above the Russian in absolute terms. But in relative terms, whether as a percentage of GNP (which would have risen to 5.1 per cent) or in relation to total public expenditures, German spending would not have been significantly greater than that of other powers. It is also possible to envisage ways in which this could have been financed. If the increase had been financed solely by borrowing, the German levels of debt and debt service would still have been less as a fraction of GNP than the French and Russian and less as a fraction of non-local expenditure than the French and British. Alternatively, if the *Wehrbeitrag* had been increased from 996 million to 2,554 million marks, and the annual yield of the capital gains tax from 100 million to 469 million (or if additional direct taxes had been devised), the increase could have been financed exclusively from direct taxation. This would have brought German direct tax levels into line with British as a share of GNP (3.3 per cent), and left them still lower as a percentage of public spending. In other words, although politically impossible for the reasons outlined above, the increased military expenditures implied by Ludendorff’s Great Memorandum were within the range of the fiscally and economically possible, as defined by the budgets of Germany’s rivals. A further point may be added, namely that a more expansive monetary policy by the German Reichsbank could have eased the strain of financing increased arms spending in the short run. The Reichsbank was hoarding gold at a time of economic downturn: it could easily have purchased a substantial issue of treasury bills without jeopardizing its minimum reserve ratio.⁷³

⁷³ Zilch, *Reichsbank*, pp. 69–133; Hentschel, *Wirtschaft und Wirtschaftspolitik*, pp. 136–43.

Such "counter-factual" hypotheses are not universally regarded as legitimate in the historical profession. However, the same point can be made by considering what did in fact happen after July 1914. Once war had broken out, both the fiscal and the monetary constraints on defence spending were quickly broken through, revealing what the Reich might have been capable of beforehand. By 1917 total public spending had risen to more than 70 per cent of GNP, the Reich had sharply increased its share of revenue and expenditure, and the Reichsbank was supporting the war effort by high levels of short-term lending to government.⁷⁴ By this time, of course, the military challenge confronting the Reich had become insurmountable, and declining output and rising inflation were beginning to indicate the limits of German economic might. But the fact that it had been able to sustain the cost of waging total war on three fronts for over three years suggests that it could have borne the much lower cost of averting war without difficulty. The fact that this proved politically impossible without the nationalistic euphoria induced by hostilities attests to the weakness, for practical purposes, of Wilhelmine Germany's much-criticized militarism.

In December 1912 the Kaiser had declared: "The German people [are] prepared to make any sacrifice . . . [The] people understand that unsuccessful war is much dearer than this or that tax". He did not doubt "the willingness of the population to grant each and every thing [that was asked] for military purposes".⁷⁵ It is the fundamental paradox of the Wilhelmine period that, despite all the outward signs that Germany's was a militaristic culture, he was wrong. True, by 1913 there were signs that the arguments for increased defence spending were weakening the anti-militarism of the Centre and Social Democrat parties. But the irony is that the groups which were the least open to persuasion on this point were the Prussian Conservative party and the defenders of "states' rights" in the other federal states, who together imposed a ceiling on Reich revenue and hence on peacetime military expenditure. As a consequence, for all her economic strength, Germany in 1914 appeared to be a power in

⁷⁴ Roesler, *Finanzpolitik*, *passim*. Significantly, however, there continued to be political resistance to increased direct taxation: cf. T. Balderston, "War Finance and Inflation in Britain and Germany, 1914-1918", *Econ. Hist. Rev.*, new ser., xlii (1989), pp. 222-44.

⁷⁵ Kroboth, *Finanzpolitik*, p. 210 f.

relative military decline. It therefore does seem legitimate to continue speaking of the war's domestic origins (if not of the *primacy* of domestic politics) — even at the risk of drawing the paradoxical conclusion that increased military spending by Germany could have reduced the chances of a war in 1914.

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