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MONEY, MONEY AND MONEY AGAIN THE DEFENCE EXPENDITURE IN THE EVE OF WORLD WAR ONE

Abstract

Most of the scientific studies about World War One focused on historical events, diplomacy, conferences but only a small number of books were written about the financial base and potentiality of great powers and their defence spending before the war. Furthermore only a handful of scientist wrote some books and papers about war economy of World War One. In this article the author gives some implicit answers about the course of the war, especially why the “Central powers” already lost the war before they begun it in 1914.

A legtöbb első világháborúról szóló tanulmány elsősorban a történelmi eseményeket, diplomáciai tárgyalásokat vizsgálja meg, és csak kevés könyv ír az eseményhez köthető pénzügyekről valamint a háború előtti védelmi kiadásokról. Csak csekély számú kutató írt cikkeket, könyveket a háború gazdasági vonatkozásairól. Jelen cikkben a szerző válaszokat próbál adni a háború folyamatáról, valamint arról, hogy a Központi Hatalmak miért veszítették el már azelőtt a háborút, hogy 1914-ben elkezdték volna.

Keywords: *military economy, World War One; defence spending ~ katonai gazdaságtan, első világháború, védelmi kiadások*

INTRODUCTION

Nearly all scientific works about World War One and the decade before focused on historical events, diplomatic activities, conferences as well as wars and battles but only a small number of books were written about the financial base and potentiality of great powers and their defence spending before the war. Furthermore only a handful of scientist wrote some books and papers about war economy of World War Oneⁱ. The reason for this scientific gap is multifarious and an accusation to single scientific disciplines is not very helpful to shut the gap. The author simply assumes that extensive research work on defence expenditure in the eve of World War One was not a priority field of research work of defence economists or historians in the past.

In 2014, the year of reminiscence of 100 years after the beginning of World War One, publishing an essay about “defence expenditure in the eve of World War One” is a real challenge for a defence economist. The following essay is only a single essay under numerous essays published in 2014 to remember the events of World War One, but it gives some implicit answers about the course of the war, especially why the “Central powers/Mittelmächte/Központi hatalmak” (The Central Powers were one of the two warring factions in World War One, composed of the German Empire, the Austro-Hungarian Empire/Österreichisch-Ungarische Monarchie/Osztrák–Magyar Monarchia, the Ottoman Empire, and the Kingdom of Bulgaria) already lost the war before they begun it in 1914. Having analyzed the figures and data in detail it is more or less a miracle that the Central powers were able to fight nearly five years against the “Triple Entente/Entente/Antant” (The Triple Entente was the name given to the alliance among France, Great Britain, and Russia) which was in financial terms vastly superior.

The situation in the fateful summer days of 1914 also showed that all leading politicians, emperors and kings of Central powers didn't have a clear sight about the importance of financial base on warfare and about the importance of national economic conditions on operational readiness of armed forces and the possibility to sustain a longer war. In times of need for absolute secrecy it also could be possible that countries published manipulated data to deceive other countries.

100 years after the World War One it is not easy to collect all the data about the financial situation of all European countries without great effort. To collect all the data it is necessary to make research work in the war archives of all countries of Europe or in the libraries of the parliaments because most of the defence budgets had to pass the parliaments to become a budget act.

On the way searching for traces the author found the periodicals "Army Almanac (Armee-Almanach)" which were published at the beginning of 20 Century by the Austrian-Hungarian army colonel Alois Veltzéⁱⁱ. The Army Almanac was a kind of forerunner of today's “The Military Balance” or the SIPRI's Yearbooks. Colonel Veltzé was the head of the publication division of war archive in Vienna and a prolific writer of his time writing more than 122 historical important volumes as an author or co-author. During the times of the First World War he founded the so-called “literary group of war archive” which produced books and articles to motivate the soldiers on the front. Veltzé was one of the officers of k.u.k army whose achievements besides to be a soldier were remarkable. The k.u.k army was full of such talented officers, i.e. one of them was the later Major general Theodor Edler von Lerch who introduced skiing in Japan during his official stay in Japan 1911/12 to study the Japanese army which won the war against mighty Russia in 1904/05 and was considered to be one of the best armies of its day.

Remarks on the sources of data of military spending

The quality of economic data changed within the last 100 year because economics as a science discipline made great steps forward in developing its scientific tools. But now and then the principle “Don’t trust statistics you didn’t create (fake) yourself” is valid. Besides statistical inaccuracies military secrecy was another important factor why it is not easy to get right data related to military affairs.

To verify the quality of the data published by Veltzé in his Almanacs the author found some recently published book containing financial data of armed forces of selected countries. Two real impressive analyzes of the period before the World War Two transmit the books “Armaments and the Coming of War-Europe 1904-1914”ⁱⁱⁱ written by the historian David Stevenson and “The Arming of Europe and the Making of the First World War”^{iv} written by David G. Hermann. The book of Hermann is also a treasure chest to find easily primary sources due to a detailed bibliography enclosed.

Studying and comparing all these sources the author is able to qualify the value of Veltzé’s Army Almanac. Comparing the data presented by Veltzé with the results of author's research work lead us to the conclusion that in Veltzé's Army Almanac are some inaccuracies in the publication of defence spending data but it was not possible to clear up these existing differences due to the lack of footnotes in Veltzé's books.

The essay is more or less an essay on macroeconomic level using aggregate economic terms but the author gives also some attention to microeconomic level in the fourth part by discussing the value of the work of officers using payment as a yardstick. The following essay is divided into five parts. In the first part, the author analyzes the burden of military spending on national economy in selected countries in Europe. Hereafter in two parts the author reflects upon military expenditure as a whole and military spending of selected countries broken down in spending for army and naval forces between 1906 and 1913. In the fourth part the author analyzes the labor value of officers in selected countries using payment as a yardstick. Final remarks conclude the essay.

The burden of military spending on national economy

An important question in every country is to what extent the state is able to burden its national economy with military spending because now and then a country is able to spend its disposable money only once and it had to find a well balance relation between expenditure for education, health and security to satisfy all the needs of all social groups in the best possible way to guarantee social freedom and justice in a society. Table one shows different forms of expression of the burden of military spending on national economy. In the second column from the left the burden is shown in percent of public expenditure and in the third column from the left in percent of net national product. As the left column shows, Germany and the Ottoman Empire burdened their public expenditure more than other countries with military expenditure. In this view the Austrian-Hungarian Monarchy burdened its public expenditure only moderate with military expenditure. Using the net national product as a yardstick to show the burden of military spending on national economy we obtain results between 2.6 and 4.5 percent which can be assumed as not really high compared with data of European countries which were measured during times of the Cold War after the Second World War until the collapse of Soviet Union in 1990/91. In this view the Austro-Hungarian Empire burdened his economy less than other great powers of Europe. Therefore it is not surprising that armed forces of Austro-Hungarian Empire was not developed as well as armed forces of other great powers in Europe.

Country	Burden in percent of public expenditure	Burden in percent of Net National Product	Remarks
Germany	50	4.2	War participant since 1914
France	29	4.1	War participant since 1914
Great Britain	29	3.9	War participant since 1914
Italy	25	2.9	War participant since 1915
Ottoman Empire	45	no figures available.	War participant since 1914
Austria-Hungary	13	2.6	War participant since 1914
Russia	25	4.5	War participant since 1914

Table 1: Average burden of National Economies with military spending in selected countries in the eve of World War One, Source: Stevenson, page 6

An analyze of military expenditure between 1906 and 1913

Armed forces are complex system, which are not able to set up between nightfall and daybreak. This fact has various reasons which could not be discussed in this essay in detail because of the available space. Only as much is said: the process of establishing efficient and powerful armed forces needs time, at least five up to ten years, to reach a high grade of operational readiness. The author realizes that money is not the only key factor to gain a high operation readiness of armed forces but money plays an important role financing housing and arming of armed forces and to pay the soldiers and civilian who work for armed forces.

To show how much money, expressed in Austrian-Hungarian Kronen (A-H K), was spent between 1906 and 1913, the author added up the defence budgets of European countries, published in Veltzès army-almanac, and formed a total sum for Central Powers and Triple Entente. The calculation yielded to 40.000 million A-H K for Triple Entente and not more than 19.000 million A-H K for Central Powers which is not more than half of the sum for Triple Entente. See for more detail figure 1 (Defence expenditure between 1906 and 1913 of European and outside of Europe).

Defence spending for Army and Navy of selected Countries between 1906-1913

In the period under consideration (1906 to 1913) every great power in Europe operated an army and naval forces. During the eve of World War One, the establishment of an independent air force was in the early stages of development, and the pilots operated their planes as a part of army or navy. Table 2 shows military expenditure for Army and Naval Forces of selected Countries between 1906 and 1913. All the expenditure are expressed in British pounds and therefore it is easy to compare the figures cross border.

A quick look at the figures for every country leads to the conclusion that military spending continuously raised between 1906 and 1913. Stevenson calculated the raise of military expenditure from 19 billion UD \$ in 1908 to 30 billion US \$ in 1913 worldwide.

Country Year	Great Britain		France		Russia		Italy		Germany		Austro-Hungarian Empire	
	Army	Navy	Army	Navy	Army	Navy	Army	Navy	Army	Navy	Army	Navy
1906	27,8	31,4	34,2	12,2	41,5	12,3	10,1	4,8	41,5	12,7	17,4	2,9
1907	27,1	31,1	32,7	12,6	42,9	9,3	10,3	5,8	46	14,9	18,5	2,6
1908	26,8	32,2	33,3	13,2	54,4	9,9	10,9	5,9	47	17	21,1	3,1
1909	27,2	35,8	34,7	13,9	57,0	9,8	12	6,6	49	20,6	27,4	4,2
1910	27,4	40,4	36,4	14,5	56,6	11,9	13,5	6,3	47,3	21,3	24,2	4,2
1911	27,6	42,9	40,5	20,7	58,1	12,8	14,7	8,2	46,9	22,1	22,4	5
1912	28,1	44,4	43,4	17,1	67,6	18,6	18,7	11,2	52,1	22,7	25,4	7,1
1913	28,3	48,4	44	19	75,8	25,9	25,3	14,4	78,3	23,5	34,4	8,7
Sum	526,9		422,3		566,4		178,7		562,9		228,3	

Table 2: Military spending for Army and Navy of selected Countries between 1906 and 1913 in million British pounds, Source: Stevenson, page 7

Remarks: The exchange rate between the British Pounds and Austro-Hungarian (A-H) Kronen (£ 1 = 24 A-H K)

As table 2 shows, it is obvious that before World War One, Great Britain maintained a blue water navy which operated in a separate league and the slogan “Rule, Britannia! Britannia rule the waves! Britons never will be slaves” was filled with life. To name concrete data, between 1906 and 1913 Great Britain took more large warships (battleships/dreadnoughts, battle cruisers and pre-dreadnoughts) into service than other great powers as the following comparative figures in brackets show^v: Great Britain (50), Germany (30), France (19), Russia (11) Italy (10) und Austria-Hungary (10).

The column “Army” in every countries column further shows the importance of land forces for continental European powers which spent more of their money to equip their armies in the best possible way than sea going nations to pursue their continental interests.

The military spending of Austro-Hungarian Empire needs some explanation. The Austro-Hungarian Monarchy has been a dualistic monarchy since the reconciliation (Österreich-Ungarischer Ausgleich / osztrák-magyar kiegyezés) of 1867. The reconciliation had far reaching implications for both countries including effects on security and defence policy of the Monarchy. Since 1867 the defence of the country has been organized as follows: Both countries operated a common army and navy. The common forces were led by the war ministry which was located in Vienna. Moreover, both countries operated their own armed forces, in Hungary this army was called “Honved” and in Austria “Landwehr”. Both territorial armies were lead by separate ministries of defence which were located in Vienna and Budapest. The reconciliation also played an important role for the preparation of defence budget in the Austro-Hungarian Empire. Both countries prepared their own budget independently. Therefore Austria and Hungary prepared a budget for the common forces and for their own territorial forces. For example, the defence budget for 1913 looks as follows^{vi}: Austria’s contribution to the common army and navy was 648 million Kronen and for the territorial-army 121 million Kronen and Hungary contribution was 315 million Kronen for the common army and navy and 105 million Kronen for the Honved. In sum, 1913 Austria-Hungary spent 1.186 million Kronen for its armed forces.

The duplication in the Austro-Hungarian Empire resulted in many negative effects, especially inefficiency in the use of scarce financial resources for armed forces due to splitting of the monarchy into two de facto separate acting states. Ultimately this situation lead to duplicities and a low operational readiness of armed forces and was one of the main reason that Austro-Hungarian Empire lost the first battles in the World War One accompanied with high losses of younger officers. This enormous loss of high qualified young officers could never be replaced during the wartime.

The value of officer’s work in selected countries

In every country’s chapter, Veltzé presented the payment of officers in armed forces but there are no footnotes added to check the correctness of the data. To verify the data of payment, the author found some other sources which mentioned payment rules in armed forces. For example, in his book “Der k.(u.) k. Offizier (The k.(u.) k. Officer)”^{vii}, István Deák mentioned that low ranking officers of Austrian-Hungarian armed forces were less paid than officers in France and Germany and in “The March to the Marne, The French Army”^{viii}, Douglas Porch gives an overview of the payment and pension claims of officers in selected countries.

A comparison of the data in table 3 shows that in Austro-Hungarian Empire besides the ranks of Generals all other ranks got less payment than officers of the same rank in France, Germany and Italy. The author was not able to find an explanation about the inequalities between the wages of Generals and other ranks in armed forces of Austro-Hungarian Empire and also about the inequalities of the payments of lower ranks in Austro-Hungarian Empire, France, Germany and Italy. One explanation for the concrete situation in Austro-Hungarian Empire could be the fact that most of the high ranking generals were members of the nobility and during the times

of Austro-Hungarian Empire the nobility had a great influence to set things right themselves and the nobility was indifferent to the standard of life of other social groups. The low payment of officers in Austrian Hungarian armed forces lead to chronically indebtedness of younger officers. Therefore in Austrian Hungarian Monarchy circulated the slogan “He has debts like a staff officer”. Many military officers in Austrian Hungarian Empire had debts during their whole life because many of them reached only the rank of a major.

	Highest ranks of Generals	Major General	Colonel	Captain I.Class	Lieutenant	Remarks
Austria-Hungary	24.000	11.400	7.200	3.000	1.680	In addition to regular payment special allowances were paid
Germany (D)	14.160	10.620	9.204	4.800	2.900	In addition to regular payment special allowances were paid
France (F)	k.A.	17.955	7.729	4.753	2.836	In addition to regular payment special allowances were paid
Great Britain	5.760	2.160	1.440	417	189	In addition to regular payment special allowances were paid
Italy	14.250	8.550	6.650	3.230	2.280	In addition to regular payment special allowances were paid
Russia	5.334	3.710	3.048	2.286	1.828	In addition to regular payment special allowances were paid
Ottoman Empire	1.720	k.A.	430	86	54	The payments not regularly take place. In addition to payment officers were also paid in kind

Table 3: Payment of officers in selected countries 1908/09 in Austrian-Hungarian Kronen
Source: Veltzés Armeemanach 1909, Porch: The March to the Marne, page 89

The data of pension claims of officers in selected countries offer nearly the same picture as the data of payment of active officers. Table 4 shows that generals in France less pension claims than generals in Germany and in Austro-Hungarian Empire.

	Major General	Colonel
Germany (Pension claim after a duty of 30 years)	12.000	7.000
France (Pension claim after a duty of 30 years)	5.800	3.300
Great Britain (Pension claim after a duty of 30 years)	17.000	9.000
Austro-Hungarian Empire (Pension claim after a duty of 40 years)	11.400	7.200

Table 4: Pension claims of Major Generals and Colonels in selected countries
Source: Veltzés Armeemanach 1909, Porch: The March to the Marne, page 89

Concluding remarks

To ensure the highest possible grade of operational readiness, armed forces need money, money and money again, a slogan which is credited Raimondo, Count of Montecúccoli.

The study about military spending in the eve of World War One showed that the Central Powers spent considerable less money to develop their armed forces than the Triple Entente. To analyze if this fact was responsible for the loss of the war by Central Powers was not an object of the study.

References

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