

Britain, France and the Financing of the First World War. *By Martin Horn.* Montreal: McGill–Queen’s University Press, 2001. vi + 262 pp. Index, notes, bibliography, tables. Cloth, \$65.00. ISBN 0-198-20871-1.

Reviewed by Hew Strachan

The financing of the First World War has not attracted much scholarly attention of late: if the topic matters, apparently, it does so not in its own right but because the financing of the war was the precursor of the slump. Ultimately, the principal economic constraint on the conduct of the First World War was industrial rather than monetary. That was not how it seemed at the time, however. Those who forecast either a short war or no war at all did so because they believed that the workings of international credit would probably deter nations from war, or would, at a minimum, keep hostilities brief. As Martin Horn recognizes in his scholarly and important book, the popular expectation that the First World War would be short, whose influence in the military sphere been considerably played down by recent historians, had real vitality for national banks and financial ministries in 1914.

The bedrock of international financial stability before the war’s outbreak was the gold standard. The Bank of England and the Banque de France had “no pattern of sustained engagement,” and Horn argues that the mutual support of the central banks in the 1907 crisis should not be exaggerated. However, the war revealed that Britain and France had very different notions of what the gold standard was designed to do. For Britain, it was a device to ensure the supremacy of the City of London in the world’s financial markets. Britain cleaved to it during the war, not in order to sustain its war effort but to ensure its postwar supremacy. For France, on the other hand, gold was conserved in order to provide a war chest. France continued to amass gold all through 1914 and 1915, its holdings peaking at £200 million in December of the latter year. For Britain, such reserves were evidence that its ally could do much more for itself, and for Lord Cunliffe, the arrogant and difficult governor of the Bank of England, the opportunity to get gold out of France and into Britain, which the French need for loans presented, was irresistible.

Small wonder, then, that Horn believes that the allies’ determination to remain on the gold standard may have been counterproductive. France found itself shipping gold to London without gaining full access to the City’s money markets, which remained effectively closed throughout the war. Britain used gold to peg the dollar-sterling exchange rate. However, Horn suggests that the gold might have been better used to pay directly for orders in the United States. The biggest wartime financial crisis for the allies, the warning concerning the purchase of foreign

treasury bills issued to its member banks by the Federal Reserve Board on November 28, 1916, prompted Cunliffe to consider coming off the gold standard. By then, as John Maynard Keynes acknowledged, convertibility was a fiction, but the belief that the gold standard represented normality died hard.

For Horn, the only proof of this pudding is in its later eating; both Britain and France, partners in the Entente agreement of 1904, having struggled to stay on the gold standard throughout the war, would end up being forced off it afterward. For the British Treasury, this was exactly the problem. Not blessed with hindsight, it saw the risk of abandoning the gold standard as more immediate than the possible postwar consequences of having done so. In 1916 it did not know either the war's length or whether the United States would enter the battlefield. Britain did know that mounting Entente orders to America had to be paid for, and thus saw that there was obvious merit both in controlling the exchange rate and in exporting its war debt. Horn acknowledges that his arguments about alternatives to the gold standard are counterfactual and therefore speculative; his discussion of the implications for allied strategy during the war itself is on firmer ground. Gold became a bone of contention between Britain and France; Russia used gold in February 1915 to play off France against Britain; and Britain's pursuit of Russia's gold led it to denigrate the latter's creditworthiness in New York.

How one sees the story of Entente relations in the First World War depends on whether one sees a glass as half-full or half-empty. Horn inclines to the latter camp. He concludes of the allied financial conference held in Paris in February 1915 that it failed to establish true interallied cooperation. This is entirely reasonable, but it measures achievement against an ideal, not against a background of two hundred years of rivalry and hostility in the case of Britain and France, and one hundred in the case of Britain and Russia. The Entente Powers worked far better as an alliance, for all their mutual mistrust and competing agendas, than did the Central Powers of Germany and Austria-Hungary. Perhaps the most convincing demonstration of this point is one that Horn himself uses to explain why the entry of the United States into the war was so crucial in terms of allied finance. By April 1917, Britain might have been able to defy Treasury scaremongering about incipient bankruptcy and limp on through the war, but it could not have sustained France, let alone its weaker allies. If France collapsed, the war was lost.

Horn's target here is Niall Ferguson, although he more often places his conclusions in the context of those reached by Georges-Henri Soutou and Kathleen Burk. Horn, however, is going in fresh directions, and he has made effective use of archival materials in France, Britain, and the United States. Although his judgments on the wider strategy of the war may be debatable, his determination to set the story against this broader background is enormously productive. Above

all, the overall context of the war makes his criticism of the “alternative strategy” for Britain in 1915—the idea that Britain would not introduce conscription but instead would focus on being the financier and arsenal of the allies—compelling. Britain could not limit its options in the war because of its financial policy, a truth that the German offensive at Verdun made plain. Finance had to be the instrument of policy, not its master.

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