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GOLD, BLOOD, AND POWER: FINANCE AND WAR THROUGH THE AGES

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Money, in whatever form you care to imagine it—silver, gold, paper, or Bitcoin—remains as it always has been, the basic underpinning of national power, as well as the crucial determinant of military success. Throughout history, power has not so much flowed out of the barrel of a gun, as Mao famously claimed, as it has derived from a nation's ability to amass sufficient funds to prosecute a conflict. One could be forgiven for not taking note of this fact in most historical narratives. This is a result of historians, despite 3,000 years of experience to draw on, still choosing to ignore the profound affect finance has on warfare. To some degree, this is understandable; after all, barely more than a generation has passed since battle and campaign narratives began taking note of the effects of logistics. If military historians find logistics boring, they find economics and finance positively "coma-inducing."

Historians who write of armies sweeping across continents and who paint narratives of brutal battlefield carnage have little desire to delve into the economics that drive the character and form of war. Furthermore, the "dismal science" of economics is not a subject military historians have typically invested much time in learning. Unfortunately, this neglect will likely widen, as economics continues on its current path toward pure mathematics and model-based econometrics, while slipping further away from its original moorings within a larger topic of political economy. Still, no strategists or policymakers can possibly hope to profit from historical experience without comprehending all of the constituents of national power, particularly such foundational elements as economic and financial concerns.

In the ancient world, Greece, under Alexander, destroyed the mighty Persian Empire, partly as a result of Alexander's genius, partly because he commanded a superior military instrument, but mostly because Persia hoarded its silver and gold rather than deploying it for war. In another instance, Sparta beat Athens in the Peloponnesian War, not as a result of Athens' Syracusan disaster, but because it eventually managed to cut off Athens from its silver mines at Laurium. Likewise, Hannibal and Carthage did not lose the Second Punic War in Italy, or at Zama. Rather, the decision in that great contest was irrevocably made when Rome conquered Spain and took over her silver mines. In a large part, it was these same silver mines that financed Rome's later conquest of the Mediterranean, which drew to an end at the same time the Spanish silver mines were exhausted.

The same basic tale holds true throughout the Dark Ages, the Middle Ages, and into the Pre-modern Era. But there is one vital twist. While having a large economic base is a vital element of national power, it is far from the most crucial. In fact, the size of an economy is not nearly as important as the ability to mobilize an economy in support of national interests. It was this factor that allowed England to punch far above its economic and population weight for centuries. England, though possessing a population and economic base a mere fraction the size of Frances' still, from the end of the Viking scourge through the Victorian era, employed a superior British administrative system to constantly humiliate its potentially far stronger neighbor.

England's early advantage grew further with the advent of the Bank of England, which was based on earlier Dutch models of public finance. With the Bank behind it, the British government demonstrated how, for the first time, a state could easily convert short-term debt into long-term debt, or in Britain's case, perpetual debt. As states now only had to pay the interest on the debt, rather than the entire principle, national debts could be turned into intergenerational affairs. In other words, wars could be fought in the present and paid for by the children and grandchildren of the participants. In fact, in Britain's case, the country was still paying interest on debts incurred to defeat Napoleon into the current decade. Every major state, with varying degrees of success, was soon emulating the British model. As such, huge amounts of capital were now available to fund huge increases in national armies, as well as bear the costs of arming their armies with the massive volumes of war materiel spewing forth from the factories of the Industrial Revolution.

By the middle of the 20th century, the revolution in finance had progressed to the point where the United States was capable of financing not only its own global war effort, but also had sufficient financial resource left over to bear the brunt of the cost for its allies. As U.S. Secretary of War Henry Stimson said after the war:

> The one thing upon which the whole country was agreed was that the services must have enough money. At no time in the whole period of the emergency did I ever have to worry about funds; the appropriations from Congress were always prompt and generous. The pinch came in getting money turned into weapons.[1]

Now, in the present, we are left wondering if the system has already been pushed to its maximum extent. In World War II, we grew our debt to nearly 120 percent of gross domestic product (GDP), but we started from a debt to GDP ration of only 40 percent. It is an open question whether the United States, or any nation, could finance another such maximum effort when its debt to GDP ratio already exceeds 100 percent. There is a number where the financial system can no longer bear the weight of additions to debt load. It should give policymakers pause that we do not know what that number is, but we are surely advancing rapidly toward it.

Are we returning to a time when empty financial coffers determine strategic success or failure?

ENDNOTE

1. Henry Stimson, *On Active Service in Peace and War*, New York: Harper & Bros., 1971, p. 352.

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