

## **To what extent did British success in Europe during the Seven Years War depend on the strength of the Fiscal-Military State?**

Britain's financial position during the Seven Years' War in Europe can largely be attributed to the strength of the Fiscal-Military State. Economic might was successfully translated into military prowess as Britain was able to raise war funds from taxation, borrowed money on low interest rates, and manage its military spending through a competent administration geared towards the fiscal responsibilities of warfare. To further illustrate Britain's monetary might, it will be necessary throughout this essay to conduct a comparative evaluation of both Britain and France's economic institutions which will reveal weaknesses in France's ability to remain significant competitors throughout the war. To this end, victory in Europe relied heavily on subsidies from Britain and guaranteed Prussia the capability to outlast their enemies in Europe. James C. Riley has highlighted France's financial misfortunes and their inability to provide its European allies with the necessary funds to wage war effectively on a long-term basis. However, in his Master's Thesis, Jeremy Lands wrote that Britain's debt was at record setting levels before the outbreak of the Seven Year's War, and entering another conflict with France would only further damage the British economy. Yet the level of debt did not have a substantial effect on the manner in which Britain waged war. This essay locates itself within the theoretical framework of a Fiscal-Military State, as John Brewer pointed out in his 1989 book *Sinews of Power*. The majority of sources used in this essay derive from secondary work from British and French perspectives, including unpublished and published postgraduate material. Additionally, primary sources in this essay include a collection of private papers and memoirs as well as governmental information from the National Archives. The appendix will give reference to statistics and trends which aim to

further illustrate my argument. The mechanisms of the Fiscal-Military State need to be further explored in order to understand its economic implications in Europe.

Military success in Europe was backed by economic power at home; thus, Britain relied on an efficient administrative structure that was devoted to organising the fiscal needs of warfare. France's inability to provide subsidies to its European allies can largely be accredited to the mismanagement of their war funds. These shortcomings were a result of internal corruption and poor supervision of spending. Large amounts of money went missing due to bureaucratic corruption through its system of taxation meant that there were many rich individuals, to the detriment of the state's financial needs. There was little coordination between governmental departments and those who held power were deemed as incompetent planners. This is further illustrated in the later years of the war when French administrators failed to note their expenditures with any real concern. Only in 1763 did military officials begin to calculate its debts to contractors from 1754 to 1757. This made repayments a disastrous issue to cope with and plagued France with financial struggles. By this point, repayment charges had consumed sixty per cent of the monarchy's annual revenue. James B. Collins stated that one of the fundamental reasons behind France's staggering 1.5 million levre in national debt during the Seven Years' War was a result of how the government handled their expenditures. Britain on the other hand experienced complete control over its military spending, though the expansion of its administrative departments. Documents from the National Archives shed light on the size and growth of Britain's full-time fiscal bureaucracy which had increased substantially as a result of the Seven Years' War. Between 1755 and 1763, the number of employees rose from 6484 to 7478. These government bodies dealt with the Treasury and Exchequer as well as all trade income. So, these figures stand as a testament to Britain's commitment to the fiscal responsibilities of war.

The fundamental task of the Treasury's in France and Britain was to find ways to raise funds; this was especially the case during wartime. Taxation rose in both countries and accounted for a large proportion of military spending, becoming the largest actors in the economy. Under the Fiscal-Military regime, Britain became the most heavily taxed state in Europe, causing many to forecast devastating results on the poor who could not cope with these rises. In London, the price of an average jug of ale increased by sixteen per cent during the Seven Years' War. However, the military demand for skilled workers and soldiers acted like a sponge, soaking up all unemployment rates effectively, therefore family incomes were larger as more were at work, which meant they could cope with tax increases during wartime. Conversely, measures were introduced in France to raise money from temporary taxation through *Vingtième*. This was a form of taxation collected by the government from the people regardless of rank, making up five per cent of the governments income. The first proposal ended in failure as it saw serious clashes between the crown and the sovereign courts. The vast majority of judges were against the suggested high rates of taxation as they were deemed too much of a burden on the general public. However, the second proposal was passed, but failed to bring in the desired funds for the war effort. Appendix A further illustrates the desperate state of French finances in 1759. While Matthew Darly's satirical print is based on British opinion, it does a remarkable job at presenting an accurate perception of French financial struggles. To this end, statistics from an unpublished paper presented at the *Fifth Annual Appalachian Spring Conference in World History and Economics* reveals that Britain from 1752 to 1760 increased its military spending from governmental funds from sixty-two to eighty-eight per cent. Appendix B reveals the increase in spending from previous wars in comparison with the Seven Years War for Britain. France on the other hand posted only forty-one to a staggering thirty per cent in roughly the same years. Therefore, it is accurate to

say that Britain was able to shoulder substantially more military responsibility as a result of its rise in taxation compared with France.

Warfare after 1688 had increased in size and frequency, armies and navies were deployed for longer periods of time and required maintenance on an even larger scale than before. As a result, taxation and trade revenue could not be entirely relied on to fund the war effort. Thus the British state became the largest borrower in the economy. Their debt was managed through long term loans with low interest rates, whereas the French state often unwisely utilised short term annuities which had high interest rates, meaning debt was accumulated sooner and at a much higher rate. Britain utilised bonds, annuities, a lottery system and aggressive advertising for loan subscriptions from ordinary citizens which would cover any expenditures the nation collated through interest on borrowed money. Additionally, rates of borrowing remained steady at 3.5 per cent at the height of the war, thus cash flow was never a problem. The stability of such favourable interest rates in Britain can be traced to the confidence instilled into lenders by the guaranteed repayments to government creditors. This played a significant part in Britain's ability to borrow funds for subsidising its allies in Europe. This was certainly not the case for France during the period, where lenders were suspicious of subscribing loans, given the King's history of bankruptcy and careless spending from previous wars on the continent. Consequently, lenders demanded higher rates of interest, rising from 50 to 100 per cent during the war, ultimately causing financial instability in France.

France and Britain maintained similar borrowing rates, standing at roughly forty per cent. Yet France devoted a lower proportion of its annual revenues to servicing charges than Britain did. For France, the figure stands at thirty-nine per cent, while for Britain the number is substantially higher, sitting at forty-eight per cent. Furthermore, with a high and secure return offered, savings were deflected away from private credit markets and onto loans of the

state. This wartime experience is further illustrated by a letter in 1759 from Hoare's, a bank heavily involved in the mortgage market to its customers: 'The uncommon supply of millions and millions granted and now raised [to pay for the Seven Years' War]'. The financial infrastructure under the British Fiscal-Military State was particularly effective at tapping into public credit this laid the groundwork for the capital market and set the tone for Britain as an economic powerhouse during the Seven Years' War.

The success or failure of trade dictated in part the financial support that both France and Britain committed to their European allies in central Germany. The Eighteenth century French trade market was the most dynamic sector in the country, nevertheless it witnessed considerable decline during the Seven Years War. These deficiencies were a result of two successful British maritime strategies: The Royal Navy and its superior strategy of blockading French ports, and privateering on French trade ultimately damaged its commerce. Appendix C further illustrates a graphic view of France's trade sensitivity during the Seven Years War. Thomas M. Doerflinger and Robert Louis Sein have estimated that French trade income witnessed an eighty to ninety per cent reduction. Thus the economy in France during this time took a devastating blow. The net flow of specie and bullion, the cost of credit, and the price of basic goods available to the consumer were all vital features of a successful economic structure. France, in this respect, failed to accumulate wealth as a result of their inability to produce their own stock of bullion and specie through their curtailing trade. This ultimately affected the manner in which their economic engine worked. Riley claims that foreign lenders had expanded their investments in French securities which as a result enlarged the capital inflow. However, this could not counter the lack of bullion and specie leaving France to pay for the war in Europe. Consequently, French money stock shrank significantly. This in part, explains why France experienced financial troubles during the war, and were unable to meet the subsidy demands of their European allies.

Under the Fiscal-Military State, William Pitt remained dominant in financially outlasting his European enemies, namely in France. His military policy of winning in Germany by a strategy of attrition came from his ability to provide the necessary funds for war. As Newcastle had commented in a letter, 'The goodness of the peace will depend on our being able to hold the war longer than France'. Furthermore, Schuman and Schweizer have put forward that the British strategy changed in Europe as it realised that the 'currency of victory consisted not merely in troops, nor ships, nor weapons, nor even decisive victories, but also, perhaps above all, in currency itself'. With efficient funds at hand, the British were able to purchase all the above commodities. Thus, military strength was measured in economic weight. This grand strategy was adopted by Frederick after 1757 and would ensure victory under the support of the British Fiscal-Military State. Arthur R. Rodgers claimed however that Prussia's possession of Saxony gave Frederick the ability to supply his armies. Saxony was far more fertile than his native lands, providing his armies with the provisions needed whilst on campaign. While this may be true, when Frederick did conquer Saxony, Mecklenburg and other neighbouring principalities, he was only able to raise his overall war funds an extra forty-eight million Thaler, bringing only little economic fortune to his war effort. The financial state of the Prussian *Staatsschatz*, the special fund for wartime activities, further illustrates how funds from Saxony only played a small part in economically supporting Frederick's armies. This source of funds amounted to merely 17.3 million Thaler which ran dry by 1758 after only two years of use. Moreover, with Prussia facing enemies whose population totalled around 70 million; it became imperative to the European offensive that a steady flow of British subsidy be supplied to fight the war on a long-term basis. The evidence is conclusive, Britain's annual injection of £670,000 from 1758 through to the campaigns of 1761 as a result of the Westminster Convention proved to be decisive in Prussia's ability to remain dominant in Europe despite the odds.

Britain was able to garner support from several European avenues. Soldiers from Hesse-Cassel and Hanover consumed a large sum of subsidy money. Newcastle had estimated that by the end of 1757, £300,000 in subsidies had been provided for Hesse-Cassel. In 1759, Frederick had presented Parliament in Britain with a request for £398,697 to cover the expenses of 29,829 Hanoverians, 6,092 from Wolfenbuttel, 842 from Saxe-Gotha and 1,243 from Buckeburg. This was approved and followed an addition of £59,646 for Hesse and £500,000 more in subsidies for Prince Ferdinand's army. Later in the same year, Parliament added a bulk sum to the European theatre, injecting £279,834 for 19,012 Hessian troops, and £60,000 in gratuities for the landgrave. Between April and May of 1759, £1.2 million was earmarked for the German theatre of war. In 1760, in addition to the £1 million vote credit, the German credit consumed thirty per cent of the British budget in 1761. Fred Anderson remarked that the amount of money given in support of Prussia's military activities reached new levels that vastly outstripped any Britain had ever made. Overall British expenditure on the German theatre came to £19,469,677, spanning over six campaigns from 1757 to 1762, which significantly improved Prussia's chances of sustaining victory in Europe. Such high levels of support point to one defining conclusion: That the strategy of attrition against a numerically superior enemy could achieve victory for the Anglo-Prussian alliance.

Britain's monetary might can be put into context when compared with France's financial struggles in Europe. Just after setbacks in Rossbach, treasury officials in Austria, Russia, Sweden, Cologne, the Palatinate, Wurttemberg, Bavaria, Saxony, Denmark and Genoa had all requested subsidies and arrears totalling more than forty million livres, equalling £2 million at the beginning of 1758. The Second Treaty of Versailles had agreed that £1.5 million in annual subsidies be received by Austria for the duration of the war, an amount France struggled to provide. Cardinal De Bernis noted the dire situation in a letter complaining to his envoy, 'I do not know what means you have to find us an extra hundred

million a year'. Ninety per cent of thirty-two million levres was allocated to Austrian campaigns. In most cases, money that was coming into the French war budget had already been spent before it had been received, as Bernis stated 'of the seventy million we have just obtained, twenty millions are already spent.' It was quickly realised by Austrian officials that their financial needs were not going to be met. Furthermore, Kaunitz found that taxes were rising, burdening the poor in Austria further. By the time measures were drawn up to curb money issues it was too late. By 1759, the State Bank in Vienna had witnessed a severe rising debt which amounted to £33.5 million by the end of the war in 1763. While Frederick noted that he was dually outmatched by his opponents, he was able to remain dominant on the battlefield against them, as he puts it, 'These people with their overwhelmingly superior forces, who throw themselves against us from the four corners of the globe . . . how is it possible that with their depth of resources, forces and troops, they have been able to accomplish so little?' This failure by Frederick's enemies can partly be attributed to France's inability to fund a substantial amount of wartime activities in central Europe. While Britain and Prussia also had an increase in debt as a result of the war, Austria's debt affected their ability to remain competitive on the battlefield against Prussian military aggression while Britain was able to maintain a strategy of long term warfare through the Fiscal-Military State.

Military victory during the Seven Years' War was not only a question of finance, manpower and superior strategy, but also the health of the armed forces. The strength of the British Fiscal-Military state was not only determined by an advanced economies' ability to buy troops but to maintain them while they were serving. Britain's up-keep of soldiers was defined by the success of its foreign private armies, mainly deriving from German regions of Europe. Erica Charters has championed the notion that Britain had failed to care for the upkeep of its armies in Europe and is aimed towards the characteristics of the British Fiscal-Military State. While there may be truth to Charter's theory, it must be noted that these



military setbacks affected France far more than Britain in Europe, given the economic issues facing France throughout the war, compared with the stable Fiscal-Military State where cash flow and replacement troops were not an issue. This was certainly the case with the 25,000 sick French troops accumulated in Soubouse. French commanders made a fatal mistake: They made cutbacks on costs and assumed that their armies could live from provisions provided by the local German states they were stationed in. This was a widespread misconception that leading to a poorly maintained army. Thus Charter's theory is better suited against a weaker state where the implications are far more devastating.

Prussian success in Europe was fundamentally linked to the Fiscal-Military State in Britain. Britain had maintained fiscal responsibility through their methods of taxation, borrowing large amounts of money on low interest rates and a capable administration to manage their military spending. Triumph in these three areas brought victory to Frederick in Europe against numerical superior foes through a strategy of attrition by providing a lifeline to resources and manpower, thus guaranteeing economic stability to Prussia. France in comparison, suffered economic turmoil due to the old regimes' out-dated and feeble economic strategies which failed to support their allies in Europe and brought military failure to their campaigns on the continent. Overall, the success of the Fiscal-Military State in Britain helped achieve victory in Europe, and most certainly could not have been done without.

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