

I.

FINANCING THE WAR.

A. The Problem.

(1) Will Financial Exhaustion end the War. . .

A month after the outbreak of war, Lloyd-George ventured the prediction that the last one hundred million pounds would win the war, confident of course as he was that John Bull's bottomless purse would be the deciding factor. Somewhat later, Lord Kitchener paid his tribute to financial power when he gave it a coordinate place in that great triumvirate of 'men, money and munitions,' which was to lead us 'through terror to triumph.' Other men have gone further. A stalemate from the military point of view, the war, they say, will end solely as the result of the financial exhaustion of Germany, or indeed of all Europe. A glance at history, however, should give such financial prophets pause. The other great wars of modern times seem to show that seldom, if ever, has actual want of money or financial distress brought war to an end. The financial affairs of France at the beginning of the Revolutionary period, could scarcely have been more wretched; yet she emerged from 25 years' of struggle with a national debt many times smaller than that with which she began the war. Of course she had committed bankruptcy in the meantime, but the investor's memory proved unexpectedly short. In 1861 New York bankers predicted financial ruin when Lincoln's Government found difficulty in borrowing a few millions from Wall Street at 7%; yet in the next four years that same Government found \$3,000,000,000 for financing military and naval operations. The study of the first two Balkan wars, of the Boer experience in South Africa, and of the long-continued Mexican chaos would seem to teach the same lesson. "It is apparently the teaching of such (military) history," says a shrewd observer, "that Governments can fight on, often against seemingly overwhelming military odds, long after the puzzle has become inscrutable, where they could raise money to carry on the war, how they could maintain their home and foreign credit, and by what means they could continue to feed both their non-combatant population and their armies." Or to quote a recent monograph,* "Generations of economists and statisticians have speculated on the limits of taxable capacity and borrowing power in various countries. Their calculations are all very entertaining to look back upon—they have been so completely falsified by events. If they could revisit the scene of their ingenious labors they would stand aghast at the moun-

*W. R. Lawson, *British War Finance*, 1914-15.