

the outlay and it ought therefore be paid for as it goes on, so far as possible. The experiences in previous wars afford no help in the solution of the difficulty because of the vast sums expended in this war. Certainly, one fundamental principle appears out of it all, and that is that the interest on the debt must be paid out of taxation. There are two other charges that should be faced in the same way, these are the maintenance of an adequate sinking fund and the cost of pensions for disabled men and widows and orphans. In time of war a nation can bear higher taxes than in peace. As the war goes on the rate of interest increases and the government expenditures are more lavish out of borrowed money than out of money raised by taxation.

No one has urged an exclusive loan policy for the reason that public credit depends upon the willingness of the government to support its loans by substantial taxation, which in turn checks private expenditures and holds back the pushing force of rising prices.¹ The English Government's long experience pointed the way to a loan policy at the outset, since taxation adjusts itself slowly to the changed conditions and income must be had at the start. That there was too much delay in inaugurating a more adequate system of taxation is pretty well maintained by the facts. The short term notes used so extensively required a constant resort to bank funds to finance them and added to the inflation process. The longer term bonds proved a more satisfactory method of securing funds. In fact the government found that the three-month Treasury notes and the three-year Exchequer bonds fell due at periods so short that they embarrassed the larger operations. Great Britain has had the advantage of foreign borrowing, and so has been able to supplement her tax revenues not only by the borrowings from her own people but from the United States as well. How soon this door will be closed is a matter of conjecture. The steadily mounting war costs in America will increase the difficulty of foreign borrowing and force her to rely upon savings and taxation more extensively.

¹ See Article of C. J. Bullock, *Quarterly Journal of Economics*, May, 1917.