to war. But to what extent can taxation be used? Theoretically if the war can be paid for out of current national income, the Government could raise all the money required through current taxes. But this measure of confiscation would be intensely unpopular, and moreover, it would be extremely difficult to levy such taxes during the course of the war with equity and justice. So taxation is never the sole reliance of a Minister charged with the administration of a great war.

Another recourse is the extension of the country's paper currency. We recall the assignats issued by France in the Revolutionary period, the Continental notes of the American Revolution, and the inconvertible paper money issued by both sides in the U.S. Civil War. The procedure is a very simple one. The Government merely sets its printing presses to work, strikes off 'paper promises to pay' to the required amount, and by making them legal tender for all debts forces them into domestic circulation. You have, therefore, a forced loan bearing no interest, and a loan proportionate to income. It therefore bears more heavily on the poor, and its economic results are apt to be disastrous. It usually involves an abandonment of the gold standard, the depreciation of the currency, and a general rise in prices. An increase in circulating credit or bank deposits may lead to an inflation of the currency in the same way as the issue of notes. Thus to quote Prof. Pigou:—"When a Government issues an internal loan under modern conditions, a considerable proportion of the subscriptions to it are likely to be financed by means of new bank money specially created for the purpose. The banks will both subscribe large sums themselves by creating deposits in favour of the Government, and also lend large sums to private persons who wish to subscribe. In so far as these issues of bank money merely take the place of issues which, apart from the war, would have been made to finance private business, there is no inflation of currency. But, in so far as they exceed this amount, and the effect of the excess is not cancelled by a diminution in the rapidity of the circulation of bank money, there is inflation. Let us suppose this inflation is ten per cent. The general prices rise to that extent, every sovereign in the hands of the public gives command over ten per cent. less real income than before, and one-eleventh of the aggregate real income of the country is forcibly transferred to the Government." In considering the extent of the depreciation however, it is well to note that a war probably increases the internal currency requirements of the country, because of the almost universal tendency to hoard gold, and the enormous increase in cash transactions due to Government purchases and the general uncertainty produced by war. Such being the case it is quite possible for a Government, which