

order by Germany with 80 billions, France with 63 billions, Russia with 60 billions, and Austria-Hungary with something like 45 billions.

The third and final method of paying for a war is for the Government to borrow in a neutral or allied country. In this case the Government sells its bonds to foreign investors, the loan being guaranteed not by the pledge of any specific capital goods, but by the national credit of the borrowing country. This method has been followed to some extent in all recent wars, including the present war, but the world-wide character of the present conflict leaves only one important neutral nation, the United States, free to take up such belligerent loans.

### (3) Methods of War Finance.

A question of less fundamental importance than that of the sources of war expenditure is how are these sources tapped. By what devices, by what financial expedients can a Government raise the money with which to finance the war? In olden times it was a relatively simple matter. The king accumulated a treasure of gold, and if this proved insufficient he bargained for gold with a merchant prince or private banker. The lender ran heavy risks of losing his money through the king's inability or unwillingness to pay. Indeed kingly repudiation of debts by cutting off the heads of creditors was not unknown. The result of such risks was usurious rates of interest. But with the development of the modern banking system came the Stock Exchange, the Money Market, the bank of discount and the great reservoirs into which the savings of the people are collected for investment. All these institutions tend to facilitate the buying and selling of credit, the mobilisation of which commodity is the chief concern of the financier of a modern war.

Setting aside confiscation as no longer being openly and directly practised, we may distinguish three methods of financing a war, (1) taxation, (2) extension of the currency, and (3) borrowing.

Taxation is of course not a new method. The general desirability of paying for some part of the expenditure by increased taxes during the course of the war is unquestioned. Not only is it easier to make such compulsory levies on current income when the patriotic fever is at its height, but it also keeps high the national credit, enables the Government to borrow on more favorable terms, and prevents the over-mortgaging of the future. The heavier share of the burden is borne by the generation responsible for the war, and presumably the generation that derives the greatest benefit from it. The ability to pass the excessive burden on to one's grandchildren, and the habit of doing so, remove one of the salutary checks