

either side. Finance is but an artificial aid to production and exchange, it facilitates the smooth and efficient working of the other factors; nevertheless it is an aid, and in a contest of endurance into which the present conflict has resolved itself, it is an extremely important aid. With this in mind then, we will seek in this study to trace the various stages in the financial mobilisation of the different countries, to compare the methods of financing the war adopted by the chief belligerents, and so far as possible, to draw conclusions as to the relative soundness of the present financial position of these nations.

(2) Sources of War Expenditure.

A few words of introduction are necessary as to the general methods of war finance. And first of all we should discriminate between how, on the one hand, wars are actually paid for by the people, and how on the other they are financed by the Government.

There are three sources, and three only, from which a people may meet its war expenditure. In the first place, it may pay for it out of its national income, which consists of its current annual output or production of wealth in the form of consumable commodities or services of any kind, its earnings from other countries for services rendered to them (such as freight charges, bankers' commissions and insurance premiums), and interest and dividends on its investments in foreign countries. In order to get the net national income, a deduction from this total should be made for payments to other countries for services rendered and interest on money loaned. In war-time it is probable that the national income does not attain the ordinary peace level. There is the possibility that the revenue from foreign investments will be curtailed through the suspension of dealings with enemy citizens and through the impairment of the capacity of allied or neutral debtor nations to pay the interest on their debts. The earnings for services rendered to other countries may be affected favorably by a higher charge for the services as a result of a quasi-monopoly, or adversely by a decrease of demand for such services and inability to perform them through preoccupation with military duties. Again the annual output of consumable goods may be decreased by the diversion of a large percentage of the population to military services, through disturbances in the organization of labor, and the general derangement of the organization of industry and production.

To what extent and in what way may the War Lords draw upon this net national income? In peace times it is used in three ways:—(1) to meet the current living expenses of the nation, including both luxuries and necessities; (2) to main-