

would be forthcoming, so immense was the sum of the short debts contracted by means of Exchequer Bonds, Treasury bills, Saving Certificates, and other loans. The object of the long-term War Loan was not only to liquidate such debts but also to provide an additional fund of fresh resources for carrying on the tremendous national expenditure. When subscriptions were flowing in, the Press listed the "new money" separately, and when the transaction was completed Mr. Bonar Law announced in the House of Commons on the 26th February that 1,000 millions of "new money" had been subscribed. That fund at 6 millions a day should have kept the country in funds for 166 days without any need for additional borrowing. It was only 30 days, however, after the announcement that it became known that the Government had resumed the sale of Treasury Bills, and since then the sale of Exchequer Bonds has also been widely advertised in the Press. There is a specious explanation of this phenomenon in the *GLASGOW HERALD* of 26th March. It is an explanation which leaves us unconvinced and which must cause many to be overawed by the "expertness" of the language of finance.

Borrowings and Dealings.

The *GLASGOW HERALD* discussing the matter says:—

Many people who do not follow closely the ins and outs of national finance will learn with some surprise that the Government is about to resume borrowing upon short-dated Treasury bills. Was not the War Loan, they may ask in surprise, the greatest success possible? Was it not put forth in order to take the place of the mass of short-term loans with which the country had become embarrassed? If a thousand millions of new money were obtained from the War Loan in February, why is it necessary to start borrowing again upon Treasury bills a month later? These questions are very naturally asked, and as it happens are easily answered. The broad fact is this—Although the War Loan was a conspicuous success and produced a thousand millions of new money it did not provide any new funds for carrying on the war. Before it was issued there were outstanding 1100 millions of Treasury bills due to be paid off within four months as an average duration. Every week, indeed every day, bills representing past war expenditure have been falling due and been paid off, and in addition the current expenses of the war—amounting for Great Britain and for loans by us to our Allies to about forty millions a week—have had to be provided. Up to the end of last week the payments coming in on account of the War Loan amounted to 741 millions, nearly 600 millions of Treasury bills have been paid off, and the balance has practically all gone in liquidating debts to the Bank of England—what are known as "ways and means" advanced. A week hence at the end of the financial year more exact figures can be given, but broadly one can now say that the proceeds of the War Loan have all gone, and those still to be paid all will go, in clearing off a thousand millions of short-term debt. No one should conclude from this that the War Loan has not been a most conspicuous success and of the greatest value to the national cause.

The National Debt.

In his Budget speech on 2nd May Mr. Bonar Law gave fuller particulars of the War Loan. Applications for the 5 per cent. Loan including Treasury bills (we give round figures) amounted to 966 millions; conversion of the old 4½ per cent. (the second War Loan) and of Exchequer bonds amounted to 1,049 millions, representing stock of the face value of 1,104 millions. The total stock of 5 per cent. Loan held by investors thus appears to be 2,070 millions. Applications for the 4 per cent. (income tax free) Loan were 22½ millions; the conversions were 28¾ millions, making a total of 51¼ millions.

Thus the total stock in the third War Loan is roughly 2,121 millions—and it is to keep up the issue value of these shares that the Government has undertaken to buy stock in the market and set aside a so-called "depreciation fund."

The total indebtedness of the nation to its lenders (and we are not clear whether this includes all forms of outstanding debt such as Bank advances, paper money, &c.) is given by Mr. Bonar Law at the enormous figure of 3,854 millions, involving an annual charge of 153¾ millions. These figures challenge thought and create a problem in taxation which cannot find a solution in the methods now being adopted. The financial practice is now one of drift—to go on with the borrowing and to stereotype direct taxation. The Chancellor of the Exchequer looks at this problem and fails to tackle it. He places additional taxation on tobacco and amusements, and expects to obtain an immediate balance-sheet from the purely ephemeral excess profits duty.

This is the steep declivity to bankruptcy, and the country is racing down it because those in authority feel it as easy to think in thousands as in hundreds. They have not recognised that if such wealth exists in the country to be lent as a source of tribute in the future, it also exists to be taken in taxation as an equitable though inadequate compensation for the lives now being sacrificed for the protection of all our institutions, for international morality, and for the safeguarding of land and property.

"Taxation Rather than Borrowing."

COMMON SENSE, May 19th, cites the opinion of American economists and fully justifies what we have already said on the subject:—

American opinion differs. More than 275 teachers of economic and political science in forty-three universities and colleges in the United States have signed a memorial to President Wilson and his Cabinet begging him, in effect, not to copy the bad habits of finance which prevail in Europe.

The American economists argue that taxation rather than borrowing should be adopted as the principal means of meeting war expenditure. This view is based partly on theory, but mainly on the experience of the past two years; and the memorial argues that "the taxation policy will prevent the price inflation which must result from large bond issues"—i.e., borrowing on the European plan:

"The present high level of prices in Europe and America is primarily due to war bonds and paper money issued abroad. If the United States joins on a huge scale in this policy of borrowing, prices are bound to become far higher.

"The policy of borrowing within the country itself does not shift any part of the nation's burden of war expenditures from the present to the future. All it does is to make possible a different distribution of the burden among individuals and social classes, to permit repayment to certain persons who have contributed income during the war by other persons after the war. . . ."

The principle upon which the memorial is based has almost been forgotten on our side of the Atlantic. It is this: if a Government floats a large loan and then spends the proceeds in buying goods and in paying wages, it increases the amount of money circulating in the country without increasing the real things—food, clothing, and so on—upon which the money will mostly be spent. Consequently as there is more money competing for a stationary, and even decreasing, stock of commodities, prices must rise. If, on the other hand, a Government obtains its war revenue through taxes, it takes away from its citizens the money with which it pays for goods and services. The citizens now have less money to spend; there is less competition for food, clothing, and so on, and therefore prices do not rise.