

How Should the War Be Paid For?

"MONEY IS BEING CREATED *ex nihilo*," reports *The Economist*, and then asks: "Why is there no inflation?"

It seems that there has been little or no monetary inflation in England; yet the total of bank deposits in the hands of the public has increased 30 per cent over the preceding two years. While no new money has been issued the volume of bank credit has expanded. What is the explanation for this seeming paradox?

The government borrows \$100 from Jones, issuing a promissory note for the amount. It spends the money, let's say in wages to munition workers. This money spent, it gets back to the bank eventually. The government needs another hundred, so it issues another bond, which it sells to Jones, who in turn deposits it as collateral with the bank. There has been no increase in money; the government has borrowed the hundred dollars twice. There has been an increase in bonds only.

As long as faith in the government's ability to make good on its promissory notes remains, this process of borrowing the same money can continue.

But, in a war economy, the depositing of government securities is only one way to increase bank credits without the issuance of new money. The fact that the money cannot be spent tends to swell deposits. The deposits cannot come in any appreciable amounts from the savings of workers; the average wage-earner needs all for subsistence. But the curtailment of production and the inability to get goods forces the manufacturer and the merchant to take their capital out of the market.

Add to this the policy of "forced saving," that is, the policy of compelling workers to purchase government securities, which eventually find their way to the banks, and you have a financial structure consisting of a colossal credit based on government promises. No new money is needed.

Is this inflation? The answer is in the definition of inflation. War economy has taught us that inflation is not what we used to think it is, an issuance of money out of proportion to the production of new goods. We have learned that any method of increasing prices is inflation. Limiting the supply of goods has the same effect on prices as increasing the supply of money. Inflation, then, depends on the amount of money spent, not on the amount of money in existence.

But the people of England are not spending any more money than they used to because there is nothing to spend it for. The goods and services they

would buy simply do not exist. Thus there cannot be an inflationary price movement. Under existing conditions even if the worker were not required to lend his wages to the government such a loan would be the only avenue for any savings he might be able to effect. *The Economist* believes that a considerable amount of these savings go to swell bank deposits; it would be interesting to know the occupations and earnings of the depositors.

It would seem from this that a war can be conducted without the creation of new money. All the government has to do is to borrow and re-borrow, at the same time curtailing the amount of consumers' goods on the market, supplementing this with a rationing system that limits spending where it is possible. That system will prevent any run-away price structure; that is, inflation.

Manifestly, the inflationary movement is merely being delayed until after the war. Then, if the brakes on human impulse are released, people will buy, manufacturers will make and merchants will put their capital on their shelves. The value of government bonds, because of their very volume, will go down. Prices will necessarily rise, because the readjustment from a war to a peace economy cannot take place in time to satisfy the demand. The war inflation will be post-war.

To avoid this result, as *The Economist* suggests, the war should be conducted more on a pay-as-you-fight basis. That is, taxes should be levied up to the capacity of the country. The logical deduction from that principle is that all the individual should be allowed to have, during war, is a bare existence. The government should confiscate all incomes, from wages, rent or interest, above the actual need for sustenance. Ethically such a program is justified; a war should be everybody's war, in sacrifice as in outcome. The plan is also justified on the grounds of expediency; it would avoid the national disgrace as well as the economic cataclysm resulting from the necessary repudiation, in one form or another. Only politically is the plan inadvisable; the war might be called off.

There is another way of avoiding post-war inflation. That is by continuing the emergency measures. If a planned economy ideology can be substituted for the war ideology, if people can be conditioned to accept rigorous control as a more or less permanent way of life, then inflation can be staved off, perhaps indefinitely. But something else would be staved off indefinitely, too. Men must choose.