

*i.e.*, notes or balances on cheque accounts. The State issues treasury bills, and discounts them either at the central bank or at other banks, and thus creates balances against which it can either issue orders for payment, or receive banknotes directly. The problem is thereby solved. The solution is too simple for anyone not to avail themselves of it; nor, indeed, were any of the belligerent states able to avoid the use of this method of financing war. The forms may vary according to the different ways of effecting payment in each country. But the main factor remains the same. Whatever happens, there is always the creation of an artificial purchasing power for meeting the immediate requirements of war.

When it has become possible later on to take up special loans, the floating debt has by that time usually increased to such an amount that the loan is mainly required for reducing the floating debt. Treasury bills previously taken up by the public are exchanged for State bonds; notes which have been accumulating in extravagant quantities in the pockets of the private individual are paid in, and the bank balances of the private individual are reduced. The creation of an artificial purchasing power is thus for a time avoided. The longer the War lasted, however, the shorter that time became. Very soon again must one proceed to the production of new bank currency to meet the country's daily requirements.

Moreover, even the borrowing process itself has usually been based to a very large extent on assistance from the banks. Private subscribers to State loans, urged on by patriotism, or simply by exterior pressure, subscribed over and above what they could afford out of their available savings. Under the most favourable circumstances subscriptions were paid by means of funds which had to be saved up during one or more of the succeeding years. In the meantime the banks had to