

were obliged to attack Russia and do their best to destroy Russian military power, but German statesmen were unwise to compromise the fruits of victory with political intrigue. As soon as the Russians realized that they were being beaten in part at least with the connivance of their own leaders, and that the Germans were both occupying their territory and seducing their rulers, they were forced to take the great step. Threatened as they were by an unscrupulous and powerful enemy, they dared to undertake a revolution in the midst of a war, and the revolution was successful precisely because all Russian patriots had to rally to the only government which secured to them protection both against the German armies and the results of German intrigue.

Thus German political strategy has taught the American and the Russian peoples two different but connected lessons. Americans have been taught by a series of bitter and humiliating experiences that for the present the enterprises and methods of the German government are dangerous to their security. The price of their democracy is enmity and war with Germany. Russians have been taught that they cannot effectively fight Germany without sharpening the differences between their domestic organization and that of Germany. Because they were enemies of the German government they were forced to become democratic. The friendly democracy was compelled to save itself by becoming a belligerent. The hostile autocracy was compelled to save itself by becoming a democracy. The German government itself has given unquestionable authenticity to a statement of the issue between Germany and the world which French and British publicists have labored so hard to establish. They have encouraged all the important democracies to become their enemies. They have encouraged all their important enemies to become democratic. If autocracy is the principle of political life and progress, it is an achievement which may result at some future time in German supremacy, but what if democracy is the life-giving principle? And in that event what kind of a price will the German people have to pay for the hideous and calamitous error of their rulers?

Financing the War

WHETHER our men will ever play a significant part in the war upon which we are entering is a question for the future. There is no question whatever that our financial resources will play a significant part. Money is needed—immense sums, and we have them at our command. Our capacity for absorbing bonds and for bearing

taxation is equal to the heaviest burdens that can be laid upon us. The problem is simply one of devising methods of financing that will carry with them the minimum of incidental and useless dislocation of industry and inconvenience of living. What we have to avoid on the one hand is a feverish boom of profit making, with kiting prices and insidious undermining of standards of consumption, and on the other hand the crushing of industry under excessive burdens, with resultant stagnation, unemployment and discouragement.

Inflation is a natural consequence of extravagant credit financiering. It has handicapped us in every war we have carried on. We may have learned to eschew the most pernicious form of credit, paper money. But excessive bond issues are capable of producing evils almost as serious. In one way or another government bonds inflate the volume of banking credit, our really important circulating medium. If we issue billions of dollars' worth of bonds, without adequate countervailing measures, money will be "easy," prices will soar, our workers will find ends refusing to meet and our profit makers will plunge into a revel of extravagance, to our moral disgrace and to the disruption of what social harmony we enjoy. Germany, it is true, has followed a policy of financing the war chiefly through bonds. Taxation has been increased hardly more than is necessary to assure the interest on the rapidly expanding volume of debt. Yet Germany has escaped the evil of seriously inflated prices. But she escaped this evil through a system of price control that we have not the administrative machinery for reproducing.

We should have the reverse condition if we attempted to supply our whole financial need through taxation. Economists since the days of John Stuart Mill have coquetted with the idea of a war financed wholly through taxes. The means of warfare are not money and credit instruments, but munitions and supplies produced by current industry. We cannot get these out of the past or the future. Why then should we not make the present pay for its war making out of the material resources it must in any event create? Why should war leave a pernicious hang-over in the shape of a colossal war debt? Simply because we have not the administrative capacity to distribute taxation in such a way as to supply our needs from current industry without depressing the volume of production. Not even the German administrative machine would attempt such a task. Were we to announce to the world that we proposed to try out such a method in the present crisis, Germany would have reason to rejoice in one serious enemy reduced to partial impotence.

While a policy of crushing taxation would be disastrous, there are none the less most promising possibilities in the employment of taxation not only to reduce the requirement for loan funds, but also to counteract the tendency toward inflation that would arise from large loan issues. Not all taxation would serve this purpose. A general system of customs duties and excises, such as we employed in the Civil War, would merely aggravate the evil of inflation. The seller would add the tax to the price, and in most instances would add more than the tax. The tax would serve as a plausible explanation for every attempt to gouge the public. In the excited state of popular feeling, consumption taxes would be an instrument of exploitation of the many placed in the hands of the few.

No such consequences could follow upon the imposition of additional taxes on incomes, inheritance and business profits. These are taxes that can not be shifted through an advance in prices. Tax my income or my profits, and all I can do is to economize. I refrain from buying goods I don't need, and leave them for persons who do need them. When I do buy goods, I am resentful of inadequately explained advances in prices. The seller has to adjust his scale of profit to the reluctance of the public. Obviously, to produce such an effect as this income and profits taxes must be as general as possible. It does some good to tax heavily the swollen incomes and the rich profits of war industries. But the maximum good is to be derived from taxes levied upon all profits beyond a reasonable minimum, upon all incomes not too small to preclude the possibility of economizing. Let us increase heavily the rates of taxation on incomes now subject to taxation. But at the same time let us reduce the exemption from its present pacific level of \$3,000 and \$4,000 to the level of \$1,500 and \$2,000. This will still remain the highest exemption in the world. And so long as we find any evidence of inflation of prices, let us keep on increasing the rates of taxation. Experience will disclose for us the point of equilibrium.

How great a revenue we can raise by such methods of taxation we can only guess. In the last year the British government has raised nearly three-quarters of a billion dollars from the excess profits tax and almost a billion from income taxation, without wholly checking inflation. Our national income is at least twice that of the United Kingdom and our volume of profits probably even more greatly exceeds that of the British. We should therefore be able to produce financial results from taxation at least as satisfactory as the British. We shall not attain to such efficiency at once, but we must proceed immediately toward increased taxation if we hope to keep down our

burden of debt and escape an era of inflation and extravagance that will lame our energies in the presence of the enemy.

More Than Pacifism

WHEN you are at a disadvantage in arguing the merits of a question, the easiest retort is, of course, to impugn the motives of your opponent. This is now the procedure in much of our war discussion: hysterical patriots accuse all pacifists of having German connections, and hysterical pacifists are blind to any cause for war except a desire to protect American loans and credit to the Entente Powers. Recrimination of this sort naturally will have little effect in the long run, but it is not wise on that account to overlook certain real connections between the war and domestic issues which are profoundly rooted in the public mind, and must sooner or later be reckoned with.

Any visitor to the recent crowded pacifist mass meeting in New York at Madison Square Garden must have been impressed by its complexion. There were in it a large number of Germans, but they did not preponderate, and the meeting was far from being a pro-German demonstration. There were citizens of all conditions and faiths. There were women from the East Side with shawl-covered heads, men with flat chests and pinched faces whose lives had been spent over stitching machines, street-car conductors, dock laborers, young, excited men and women such as can be seen during any political campaign at street-corner gatherings or during any garment strike at union locals. These people were not thinking mainly either of international affairs or of unadulterated pacifist philosophy. But there were certain details of our social organism that had come close to them. Steadily rising prices of all life's necessities had eaten into their wages. Food scarcity, which they believed was artificially promoted for profit, had impoverished their tables. They had heard much of prosperity, but their wages had not risen in any fair proportion to the prices they had to pay. They had read of the vast profits, the hundred per cent and two hundred per cent dividends of our great industrial companies—as a result of the war. The rising cost of living, it had been drummed into them, was a result of the war. They remembered the street car and subway strike, in which even an attempt to organize on the part of the men had been crushed by prosperous corporations whose history is notorious for financial and political corruption. They remembered the long struggles in the garment trades, among the longshoremen—in this, that and the other industry—