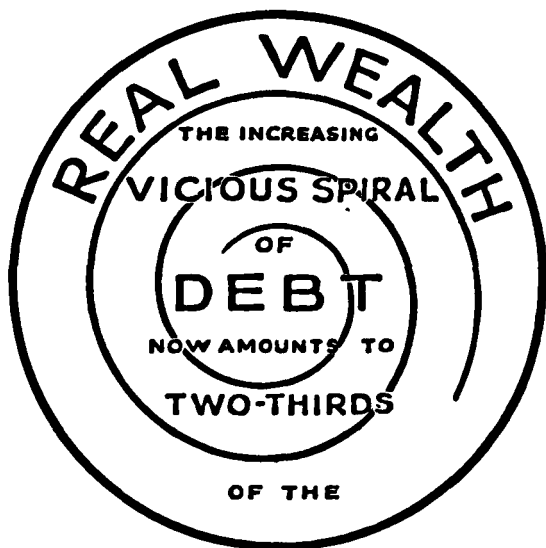


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BRITAIN IS PAWNED !



**TOTAL CAPITAL VALUES
IN GREAT BRITAIN**

BRITAIN IS PAWNED!

BY

VINCENT PANTIN

AUTHOR OF

"SPURIOUS CAPITAL," "WHAT IS NATIONAL CREDIT?"

. . . Any casual gain, or godsend, is naturally devoted to the same purpose. Beyond this, the only mode which is just and feasible, of extinguishing or reducing a national debt, is by means of a surplus revenue. . . . The succession duties would be peculiarly suited to such a purpose.

JOHN STUART MILL,

Principles of Political Economy.

There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty.

Proverbs xi. 24.

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THE NATIONAL DEBT

REDUCTION OF £4,509,000

Approximate totals of the National Debt are as follows :—

INTERNAL DEBT		£
Consols, etc.		313,287,000
Terminable Annuities		12,124,000
3½% Conversion Loan		739,588,000
4% Consolidated Loan		400,926,000
3½% War Loan		1,912,674,000
4% Funding Loan, 1960-90		357,584,000
3% Funding Loan, 1959-69		147,194,000
4% Victory Bonds		320,300,000
5% Conversion Loan, 1944-64		322,842,000
4½% Conversion Loan, 1940-4		368,858,000
3% Conversion Loan, 1948-53		301,838,000
2½% Conversion Loan, 1944-9		206,527,000
2½% Funding Loan, 1956-61		125,974,000
3% Treasury Bonds, 1936		42,000,000
2½% Treasury Bonds, 1937		30,229,000
1% Treasury Bonds, 1939-41		100,000,000
National Savings Certificates *		391,636,000
National Savings Bonds		4,318,000
Treasury Bills		763,115,000
Ways and Means Advances		19,055,000
Total Internal Debt		<u>6,880,069,000</u>
EXTERNAL DEBT †		
5½% Twenty-year Bonds, 1937 (\$20,067,400)		4,124,000
U.S.A. Government Loan (\$4,368,000,000)		897,534,000
Loans from certain Allied Governments		134,887,000
Total External Debt		<u>1,036,545,000</u>
Total National Debt		<u>7,916,614,000</u>
<i>Deduct :</i>		
Victory Bonds, etc., purchased by National Debt Commissioners, but not yet cancelled		120,558,000
Net Total on March 31, 1936		<u>7,796,056,000</u>

* National Savings Certificates are shown at issue price, exclusive of accrued interest.

† At par of exchange.

From "The Times"—April 22, 1936.

The reduction shown here (£4,509,000) is 0.000578 of the total amount; a trifle over 1 in 2,000.

" Full employment, Mr. Keynes contends, can only be achieved by a correct monetary policy. For unless the level of effective demand—i.e., the aggregate spending of the Community—is maintained at a sufficiently high level, full employment is impossible.

" Unfortunately, however, as our income increases, we tend to save more, and efficient demand tends to become insufficient. In these circumstances the only alternatives are either to expand investments by forcing down interest rates, or to stimulate consumption and restrain saving by redistributive taxation."

Extracted from "The Times" of March 10, 1936, criticizing "The General Theory of Employment, Interest and Money," by MR. J. M. KEYNES.

" We had no sinking fund except the small fortuitous balance of the last year's surplus. . . . The banks were gorged full with unprecedented accumulations."

MR. WINSTON CHURCHILL, *April 23, 1936.*

" . . . Future prosperity requires that the returns on enterprise and risk should be improved relatively to the returns on usury. In other words, the margin between the entrepreneur's profit and the *rentier's* interest must be carefully protected if private enterprise is to solve the problems of the future. . . ."

Extracted from a letter to "The Times" from MR. J. M. KEYNES, published on April 24, 1937.

CONTENTS

	PAGE
INTRODUCTION	ix
CHAP. I. THE NATIONAL LIABILITY	1
II. CAPITAL VALUE, COSTS AND PRICES	10
III. THE RATE OF DISCOUNT	18
IV. IMPLICIT AND EXPLICIT INTEREST	27
V. REDISTRIBUTIVE TAXATION	36
VI. LIFE ANNUITIES	47
VII. A STABILIZED INTERNAL PRICE LEVEL	51
VIII. VARIABLE BORROWING AND LENDING RATES	60
IX. THE RATE OF EXCHANGE	65
X. NOT A CAPITAL LEVY	82
XI. WOULD CAPITAL BE EXPORTED?	86
XII. SOME QUESTIONS AND THEIR ANSWERS	94
EPILOGUE	113

INTRODUCTION

THIS book is an attempt to solve two problems: Unemployment and Exploitation, without destroying individual liberty to produce and consume. There are two schools of thought opposing each other on the economic question: Socialism and Communism, on the one hand, which postulate the necessity for the abolition of private enterprise in production in order to solve the problem of equitable distribution for consumption. On the other hand there are those who include monetary reformers of various views and the adherents of the Henry George school of thought, known as Single Taxers, who do not consider that production would be increased by departing from the proved methods of private enterprise. Consequently, their efforts are entirely devoted to solving the problem of equitable distribution for consumption which, at the same time, will encourage further production under private enterprise.

The views expressed in these chapters have at least this in common with the advocates of monetary reform and the Henry George school of thought, that individual effort to earn profits under private enterprise need not be interfered with in order to solve these two problems. It should be understood

that the writer opposes the idea that it is necessary to alter the present monetary and banking systems in order to abolish unemployment, though it would be advisable to maintain the present price level stable by state control ; a method to enable this to be brought about is explained in Chapter VII. Nor need the existing debt or the sum of interest be reduced for unemployment to be abolished. Unemployment, it is claimed, is directly due to over-saving and may be abolished by redistributive taxation of a kind that will bring about the necessary equation between saving and spending.

A simple alteration in the rate of estate duties would force the richest section of the community to buy life annuities instead of allowing them to reduce consumption by paying premiums to provide for the estate duties. A penal rate would force these people to part with a portion of their fortune immediately to relatives, whilst retaining their own spending power, but the spending power of these relatives would be increased (see Chapter VI). This would increase consumption by millions a year and absorb all the unemployed in spite of the fact that the continued existence of exploitation, through the possession and expenditure by some of unearned incomes, would not enable the producers to purchase the whole of their product.

The arguments in this book go further than suggesting a remedy for unemployment. The claim is made that exploitation in all forms, which shows itself as a sum of interest, may also be abolished. The state, which is now a mortgagor, should retrieve

its position by building up an annual budgetary surplus in the form of a loan fund until it becomes a mortgagee, thereby destroying spurious capital values and bringing down the sum of interest, i.e. unearned incomes, to zero. Briefly, the arguments developed in the following chapters are as follows :—

(1) That costs are at present loaded with charges which form the basis of spurious capital values, called the national liability, and that all indirect taxation is also added to costs, both of which fall upon the consumer in the form of higher prices.

(2) That prices should be reduced or alternatively that the price level should remain unaltered but earned incomes would rise by lifting this indirect taxation and also by transferring certain of these charges to the revenue by means of direct taxation.

(3) That the transference of these charges to the revenue would destroy the spurious capital values of which they are the base, and which now create these spurious capital values.

The proposed method of imposing this redistributive taxation would be by increasing death duties and imposing annual taxation upon capital values, but untaxing the consumer. The yield from this source of taxation, however, should be sufficiently large to enable the revenue to retain an annual surplus. The abolition of consumer taxes would encourage and increase consumption, and the existence of a budgetary surplus would in its turn encourage the production of capital goods by enabling loans to be borrowed from this surplus at a lower interest rate than is at present available, on the

security of these fresh capital goods. It is claimed that the effect of these alterations in the present methods of taxation would be as follows:—

(1) To increase the consuming power of the producers.

(2) To bring about the necessary equation between saving and spending, thereby creating a maximum of production and consumption; for it is the present lack of this equilibrium between saving and spending which is the immediate cause of unemployment.

(3) To reduce and ultimately abolish both the saving and spending power represented by a sum of interest now in the possession of non-producers.

The terms producers and non-producers do not refer to individuals, but to aspects of individuals. The term producer refers to the possessor, in whole or in part, of an earned income, whereas the term non-producer refers to the possessor, in whole or in part, of an unearned income. Thus, an individual possessing an income of £1,000 per annum, of which £850 represents earned income in the form of a salary or earned profits and £150 represents unearned income in the form of a sum of interest, is said to be a producer to the extent of his income of £850 and a non-producer to the extent of his income of £150.

The more intelligent and influential members of society must learn to realize that the growing increase in the improvement of technical methods of production with reduced wages sheets cannot bring about the requisite consumption in a community

loaded with a national debt and consumer taxes. They must tackle this problem of under-consumption, both due to and in turn causing unemployment, in self-defence ; for there is a strict limit to the amount of debt that any community can carry without unduly reducing consumption and, therefore, both wages and earned profits, and that limit has been exceeded in the case of Great Britain. The sum of those unemployed is the measure of that excess.

While the currency and banking questions have not been entirely neglected and are dealt with in passing in Chapter VII, nevertheless they are considered to be of minor importance to the existence and continuous growth of the vicious spiral of spurious capital values. For it is on the security of these spurious capital values that the banks, for the most part, secure their advances,¹ and it is the interest on these loans that the borrower adds to his costs and passes on to the consumer which causes prices to become loaded with the charges referred to above.

¹ See Professor Soddy's claim on p. 56.

CHAPTER I

THE NATIONAL LIABILITY

THIS book is addressed to all those who derive the bulk of their income from their own efforts. If we postulate that the total national income is divided equally between unearned incomes and earned incomes, then, unless production falls in consequence, every decrease in unearned incomes increases earned incomes.

Every increase in the national debt increases the sum-total of unearned incomes and consequently is detrimental to the income-earning capacity of the producer class, unless production is thereby increased to a greater degree than the interest payable to the bondholders. It is claimed that an increase in the national debt is not offset by any increase in production, and that further every increase in the national debt prejudices production by reducing consumption, the market for production, as a whole.

There can be no question that unearned incomes are at least equal to earned incomes, in fact several writers on this subject place the proportion of unearned incomes considerably higher than one half the total income of the community. This does not

mean that all this unearned income is spent on consumable products. If this were so there would still be exploitation but no unemployment. It is precisely because the richer section of the community will not spend its whole income but seeks to reinvest a large portion of it, especially in some form of national liability, that the problem of unemployment has developed, and every increase in the national debt aggravates the position.

Let us take three classes of producers who derive the bulk of their income from their own efforts and analyse how the abolition of unearned income will affect them. In the first class take the wage-earner whose earned income is, say, £200 a year and his unearned income from a sum of interest is £10 a year, a total of £210. He would lose his unearned income of £10 but the value of his earnings would double. As it is suggested that the price level should be stabilized at the present level, this would mean that the abolition of unearned income would increase his wages to £400, apart from any increase in wages or leisure due to any increase in production caused by the abolition of unemployment. In the second class take a salaried man earning £500 a year with an unearned income of £100 derived from a sum of interest. In this case his income would rise from £600 to £1,000. In the third class take an employer with a capital of £10,000 part of which has been borrowed on mortgage. His income is, let us say, 15 per cent on this capital or £1,500 a year. The unearned income is, say, £500 or 5 per cent which is due to interest, and this he pays partly to

himself as capitalist and partly to the capitalists from whom he borrowed money; the balance of £1,000 a year he earns as an entrepreneur or producer, and this sum is his economic wage. With the abolition of interest his earned income would rise to £2,000 and his unearned income would fall to zero.

It frequently happens that a portion of this extra income over 5 per cent, or whatever the rate may be that banks charge for overdrafts, on the invested capital is also unearned, in which case it is not economic wages but a sum of interest and thereby creates a capital value in some form of goodwill. It is explained in Chapter II how the possession of a sum of interest gives rise to capital value. Those who do not derive the bulk of their income from their own efforts would lose by the abolition of interest and would consume capital; see Chapter VI with regard to life annuities. Colloquially every form of capital value is termed an investment, whether it consists of real capital value represented by real wealth or whether it consists of spurious capital value based upon a future unearned income. Investments in capital value are of two kinds therefore: assets consisting of real wealth and debts representing the national liability. The national liability consisting entirely of spurious capital values may be divided into three categories, viz.

(1) Land values; these are derived from capitalizing *future* rentals, i.e. each item in the income stream is reduced from its future value to a cash value by the action of the rate of discount; the total of these

cash values is the capital value.¹ Land value, like war loan, is a part of the national liability, because future income, as yet unearned by the producers, is earmarked to be taken from them and paid to the landlords and mortgagees of the community.

(2) Monopoly goodwill, consisting of the cash values of future unearned incomes due to the action of tariff restrictions or some other monopolistic privilege. All these cash values represent an asset to the owner of this lien upon future production, but represent a liability by the community to the owner.

(3) The national debt consisting of the dead-weight war debt and any other bonds which are not offset by real wealth owned by the Government, although finally the public service should be freed from interest charges.

While nobody will dispute that the national debt is part of the national liability, there may be some who do not appreciate the fact that land value and certain forms of goodwill are also part of the national liability. Let us take land value first of all. Land value is a liability by the community to the landlords because it represents a price based *solely* upon an income to be obtained in the future. Man is like a spark that persists for a certain period of duration between two poles, positive and negative. One pole is the earth and the other is the air. Now, air, like land, has a maximum "value in use" but a minimum "value in exchange" or price; zero in fact.

Yet it would be quite possible to give air a price.

¹ See columns "Present value of £1 per annum" at varying rates of discount in Inwood's Tables.

For instance, the national debt could be borrowed against the security of "breathing" by issuing air-bonds; the bondholders deriving a fixed interest from the sums paid by the public for a licence to breathe. But there is another method whereby a government could raise money with regard to giving air a price; the right of the whole people to breathe could be sold to investors for a certain fixed sum, which at the time of sale might represent twenty years' purchase of the annual income in sight, say one pound per head. As the population increased, not only would the gross income at one pound per head increase, but more than this could be charged those who could afford it for the right to breathe; for the alternative to paying what was asked would be to breathe the only air that had no price, communal air, in gaol.

After the air licence had been in force for a few hundred years the gross income would have risen, say a thousandfold; though still only returning the current interest rate "on the investment." This spurious capital value would be sustained solely because the law declared that all breathers must pay "all that the traffic will bear" for all time in the future. This spurious capital value would thus be air stock. Land value, at the other pole, is of exactly the same character, and is based upon the fact that it is the capital value of rent, fixed at the maximum figure of "all that the traffic will bear." Whereas the national liability represented by air stock could be repudiated by allowing people to breathe without a licence (in the same manner as

the capital value of slaves may be repudiated by abolishing slavery) that part of the national liability represented by land value could be repudiated by pooling rent : paying the rental value of the land into the revenue. This is the Single Tax, as proposed by Henry George in his book *Progress and Poverty*.

The spurious value represented by monopolistic privilege is mainly to be found in watered stock due to maintaining profits in industries which are protected from having to meet foreign competition by virtue of quotas and customs tariffs. It may also be found in the capital value of hotel licences which are limited in number. Although these licences are payable yearly, should it be decided to abolish a certain hotel, compensation is asked for on the capital value of the goodwill based upon the vested interest of a licence in perpetuity. This portion of the national liability is far larger than is generally thought to be the case, but space cannot be spared to do more than mention this class of vested interest as part of the national liability.

Now we come to that part of the national liability represented by the national debt itself : for hundreds of years we have "taxed in" as revenue a portion only of our expenditure, and by borrowing the deficit from individuals we have gradually built up an enormous national debt. This now amounts to over 7,000 million pounds (7 milliards), having been made more than ten times its former figure by failure to pay entirely for the last war by taxation. We have also what is called the floating debt, taking

the form of Treasury Bills and " Ways and Means " advances. This floating debt totals more than the whole of the National debt prior to 1914, and exceeds 600 million pounds.

The annual interest bill on the national debt exceeds 200 million pounds. The figures for March 31, 1936, give £752,920,144 received as revenue, of which £211,533,776 is for interest on the national debt. The net revenue was, therefore, £541,386,368, which was increased by 39.07 per cent to provide the national debt interest. On a basis of 4s. 6d. in the pound for income tax which was the rate for that year, this is equivalent to 3s. 2½d., which was increased by 1s. 3½d. for the national debt interest. Taxes upon the luxuries and amusements of the people have also been increased considerably since the war, to meet this charge. It is not difficult to realize that if these consumer taxes and the income tax were abolished, most of the money would be spent just the same; but spent in obtaining more luxuries and amusements.

By budgeting for the revenue and a large surplus in a proper manner, this national liability, consisting of spurious capital values, could be immediately reduced and finally abolished. To the degree that this reduction was effected, the producer would enjoy a larger proportion of his product, either in the form of a lower price level or a larger income.¹ The term producer includes both the entrepreneur and the worker; and as the burden of consumer taxes decreased, both the earned profits of the entrepreneur

¹ See Chapter VII.

and the real wages of the worker, i.e. economic wages, would increase. We should, therefore, abolish indirect taxation and collect the unearned income, i.e. the sum of interest, for revenue purposes (including the surplus) so that prices would no longer consist of production costs, taxation, and interest on the national liability and real wealth. Taxation only would be added to costs and would be provided from the sum of interest; for taxation is a necessary part of "overhead" and must always be included in prices and paid by the consumer, though he should not pay *twice* as he does at the present time; once as interest and again in consumer taxes.

The basis of the spurious capital values now represented by this sum of interest, viz. rental values, interest on monopoly goodwill and interest on the national debt, would gradually cease to exist as private income, and this huge sum of watered stock, which accounts for about two-thirds of the capital value of the United Kingdom, would be written off.

The proportion of the national liability to the total capital value is taken as approximately two-thirds and is based on the following figures, which are claimed to be correct within a margin of 20 per cent.

The national liability consisting of :

	Milliards of £.
Land value	10
Monopoly goodwill	2
National debt	8
	—
	20
	—
Real wealth	10
	=

leaving a balance of 10 milliards of national liability. Real wealth consists not only of capital goods : some form of wealth used in the process of production, e.g. factories, machines and stocks of raw materials, but consists also of all forms of products in process of consumption.

The amount of land value in a country approximates to the real wealth in that country just as the weight of water displaced by a vessel equals the weight of the vessel, because every improvement due to an increase in real wealth increases the amenities, makes it a better country to live in, and therefore raises the rental value and thus the capital value to that degree. Experience has proved in Australia that for every million pounds spent by the government in building suitable railways, land value has increased in consequence by an equivalent sum.

To the degree that the national liability is reduced the charges which make up the disparity between costs and prices will fall. If the population is taken as consisting of ten million families, then the abolition of the national liability would add an amount equal to the interest on £2,000 to the spending power of each family either in the form of lower prices or higher wages.

CHAPTER II

CAPITAL VALUE, COSTS AND PRICES

CAPITAL value is the product of three factors, and any alteration in one or more of these factors will alter the capital value itself. These factors are: (1) The unearned income stream; (2) the discount rate; (3) the degree of confidence held by investors in the amount and continuance of the unearned income stream. Thus if the unearned income stream for the ensuing years is confidently expected to be £100 per annum in perpetuity and the discount rate is 5 per cent, then the capital value will be 20 ($100 \div 5$) years' purchase, or £2,000.

If, however, there is a fear on the part of investors that the unearned income stream will diminish or cease entirely, e.g. that a tariff will be taken off or a tax placed upon land values, then the factor of confidence will be low, decreasing the number of years' purchase, which has the same effect as an increase in the discount rate. If, on the other hand, there is a hope on the part of investors that the unearned income stream will increase, e.g. that the rental value of land may shortly be raised owing to the expenditure by the government of loan moneys in the district, then the factor of confidence will be

CAPITAL VALUE, COSTS AND PRICES 11

high, increasing the number of years' purchase, which has the same effect as a decrease in the discount rate.

Thus it is clear that a rise in capital values may be due to the expectation of an increase in the unearned income stream or it may be due to a low discount rate ruling. Should these factors exercise their effect simultaneously, the rise in capital values is correspondingly greater. A very interesting example of capitalization was given in *The Star* of August 21, 1936.

I have worked out the market capitalization of several of the more popular leaders. The figures startle the imagination.

	Ordinary Capital. £	Market Value. £
Associated Cement	3,500,000	17,500,000
Boots Pure Drug	1,600,000	18,400,000
Cerebos	1,000,000	10,375,000
Distillers Company	10,690,962	56,127,000
Hovis	394,780	2,418,000
Imperial Tobacco	37,563,049	317,000,000
Leyland Motors	900,000	5,287,000
Standard Motor	460,000	2,800,000
Thos. Tilling	3,296,000	12,750,000
Triplex Safety Glass	200,000	1,200,000
Turner & Newall	4,843,933	22,403,000
Watney, Combe & Reid	3,185,410 (def.)	13,540,000
Woolworth, F. W.	3,750,000	108,750,000

These figures show that shares of 13 representative companies with a total issued Ordinary capital of slightly over £71 millions are capitalized at approximately £588 millions, but despite this large valuation, short-term operators feel pretty confident that prices may mount

still further. They base their optimistic views on prospects of higher dividends and scrip bonuses.

Several of the aforementioned shares have reached limits foreshadowed some time ago in these columns. I have heard of still higher levels which, if reached, will add many more millions to the present capitalizations.

Capital value may be compared to the cubic capacity of a packing-case which is determined by its three dimensions, viz. length, width and depth. Let the length represent the unearned income stream; the width, the number of years' purchase (one hundred divided by the discount rate); the depth, confidence, say one foot at unity; meaning that buyer and seller are confident that the unearned income stream will remain constant in perpetuity, neither increasing nor decreasing. Then any loss of confidence in the continuance of the unearned income stream would have the same effect upon the capital value as the reduction of the depth to less than one foot would have upon the cubic capacity of the case. Moreover, any increase in the discount rate would reduce the number of years' purchase and have an effect on the capital value similar to reducing the width of the case. Should these three factors exercise their influence simultaneously the loss of capital value, i.e. the reduction of the national liability, would be correspondingly large (see p. 32).

A very simple test may be applied to all income in order to find out whether it is earned or unearned. If it is unearned it will create capital value equal to the discounted value of its future yield, but if earned it will not create capital value. This was not so

under chattel slavery ; then the future net earnings of the slave (the difference between the wealth produced and the cost of upkeep) were discounted, and became capitalized in his head (Latin, *caput*) value.

The abolition of slavery and serfdom, while nullifying the capital value of the slaves' earnings to their previous owners as capital nevertheless produced a new kind of value. No longer chained by the head they became chained by the feet, creating what should be called "pedestal," but which is known as land value. Whereas formerly the owner had a lien over the product of individual slaves with all the risks incident thereunto, now the non-producer has a lien over that impersonal thing termed income.

Whereas formerly the capital value of the slave was based upon the discounted yield of the production he was capable of in the years of his strength, strictly limited in period to the time of his death, now capital values may be based upon income in perpetuity. No longer need the health and environment of the individual slave be studied in order to maintain capital values ; Inwood's Tables will provide the figure of the capital value derived from the possession of a given income at a given rate of discount for a given time or infinity. The overseer with his whip is replaced by the actuary with his logarithms ; for such is the fruit of the growth of our inductive sciences grafted on to the tree of national debt.

Owing to the simple invention of creating a national debt and thereby increasing the pressure of the previous national liability in existence it has

made it possible to increase the unearned income stream, viz. the sum of interest, thus increasing the disparity between costs and prices; for the greater this disparity the greater is the sum of interest and the greater is the national liability which is sustained by it. Socialists have declared that there is a class war between employees and employers, and the employers have taken up the challenge. Both classes would be better advised to ally themselves and make common cause against their common enemy: the existence of a sum of interest.

As mentioned in the Introduction, if the whole of this sum of interest, i.e. the unearned potential purchasing power, was actually spent on consumable goods and services, it would absorb the unemployed, although exploitation by the non-producer, not by the entrepreneur, would still exist. However, the fact remains that the whole of this potential purchasing power is not so used, but it is nevertheless always well in evidence for investment purposes if the opportunity offers, especially if a fresh loan to increase the national debt is forthcoming. In the U.S.A. recently a \$400,000,000 loan was over-subscribed 13 times.

The remedy for this state of affairs is not necessarily to be found in some alteration of the monetary system, though, of course, if fiat money were handed round in the form of "consumer credit" the recipient would benefit temporarily. Finally, however, this extra money would disappear as actual purchasing power for the same reason as the previous potential purchasing power was not exercised, but meanwhile

the price level would have risen. The simplest remedy to bring about an equilibrium between saving and spending is to be found in untaxing purchasing power which is being actually exercised, by abolishing consumer taxes and to tax instead, while providing for a surplus, the unearned income of merely potential purchasing power. As the possession of an unearned income creates a sum of capital value, a tax levied on capital value will tax this potential purchasing power.

The preceding arguments are the converse of those associated with the name of Karl Marx. Briefly, Marx held that exploitation took place at the point of production ; that the iron law of wages did not give the worker any income with which to pay taxes, and that therefore the " capitalist " paid all taxation out of surplus value. The result of reducing or altering the incidence of taxation in any manner, according to Marx, can only redistribute income between one class of capitalist and another but can have no effect upon the condition of the workers, and that nothing less than the collective control of production can do so. Whereas the preceding arguments maintain that the exploitation of the producer (entrepreneur and wage-earner) takes place at the point of consumption, and that the money paid in wages to the worker and in earned profits to the entrepreneur equals the full value of their respective shares in the product, totalling the whole of the costs. The difference between these costs and actual prices, however, is due to the addition of a sum of interest implicit as potential purchasing power

belonging to non-producers, whom Marx called "capitalists."

Though this unearned income forms the basis of that spurious capital value which is the national liability, unearned income is also obtained as interest upon investments in capital goods, but although the capital value of capital goods may fall, as in the case of superseded machinery, it cannot rise above its cost of reproduction, a disability from the investors' point of view not shared by any form of investment in the national liability. So long as it is possible to invest in some form of national liability and obtain interest, then so long, but no longer, will an investment in capital goods be able to obtain implicit interest and an investment in money secured on capital goods be able to obtain explicit interest. Implicit interest is the balance of net profit obtained after deducting all earned income and becomes one of the factors of capital value, i.e. the income stream. Explicit interest is that portion of implicit interest which accrues to an investor according to whether he is a debenture holder, preference shareholder or ordinary shareholder. In so far as profits are of a risky and uncertain nature they create no capital value and therefore these profits are not implicit interest but figure as earned income (see p. 101); for it is the essence of private enterprise in production that profits which are earned should accrue to the producer, whether that producer gives the work of his hand or his brain, including the taking of risks with his money.

The transfer of the unearned potential spending

power, now included in prices, to the revenue with its surplus in lieu of consumer taxes would cause *pro tanto* the abolition of the implicit interest now included in prices which goes to the possessor of capital value. This fact would be detrimental to the production of fresh capital goods unless the revenue surplus were available to grant mortgages on the security of such fresh capital goods, and the interest, if any, would accrue to the revenue. Prices may be forced above costs (including the earned profits of the entrepreneur) not only by the existence of a sum of interest but also by a government issuing fiat money or by private individuals being successful in putting forged "currency" into circulation. Every claim by a non-producer for part of the product of the producer reduces the percentage which the producer will be able to obtain and which should be 100 per cent of his product. All these different forms of false claims exercised as spending or investment power manifest themselves by a rise in prices above legitimate costs, i.e. economic wages and taxation "overhead."

In addition to any such false claims which increase the price level, the gap, or disparity between legitimate costs and actual prices, consists of charges which may be divided into five categories, viz. interest on capital goods, rent, monopoly goodwill, taxation to cover interest on the national debt and finally taxation to provide the balance of the revenue. Each of these charges, with the exception of the first and the last, forms the income stream of these different kinds of spurious capital value.

CHAPTER III

THE RATE OF DISCOUNT

It appears to be a matter of indifference to the worker whether he is employed to produce capital goods, or the product of capital goods, namely consumable goods. But if potential consumers who are in receipt of incomes from any source do not spend their incomes to buy consumable goods and services in correct proportion to their investment in capital goods, there must come a time when a large number of would-be wage-earners will not be employed to produce either capital goods or consumable goods, nor to supply services. Now, unemployment is a disease peculiar to civilization. A country becomes civilized to the degree that the proportion of labour applied to the production of capital goods increases. Originally capital goods were of a very simple form, such as nets or traps, weapons of the chase and so forth, developing in the course of the years into the vast installations of modern machinery. The savage spent the bulk of his time in direct effort to obtain consumable goods; and only a small portion of his time in producing capital goods.

The production of capital goods may be said

to be a form of saving : similarly, the consumption of consumable goods may be said to be a form of spending. This remains true, irrespective of whether barter or some form of money is used. The object of saving through the direct production of capital goods was to provide consumable goods in proportion to spending, with a minimum of effort. Conversely, the ability to exercise saving in the form of capital goods was strictly limited by the demand for their products through spending. But whereas the savage restricted his savings, say in regard to the quantity of nets he owned in ratio to his market for fish, the civilized man who saves money does so without any regard to the need of society for extra capital goods. He is moved rather by the fear of poverty in his old age, or by the desire for power which accumulation gives him.

Yet in modern business it is the entrepreneur who judges most correctly the proportion between the capital investment required and his prospective turnover who, other things being equal, makes the most profit ; in other words the quantity of durable goods or savings required to support spendings. For instance a caterer must have sufficient crockery to provide customers with meals, yet if too much money is invested in crockery the profits suffer accordingly. A reasonable proportion between the production of durable and consumable commodities is as necessary for the community as it is for the individual entrepreneur. Now the main difference with regard to production between private enterprise and Socialism is the question whether the risk

of a loss due to lack of correct judgment in determining this proportion between the production of durable and consumable commodities should be at the expense of the individual or the community. It is true that Socialism might, if the authorities did not misjudge this proportion, solve the problem of distribution, but as this problem will be solved with the abolition of the national liability there is no object in introducing collective control in the field of production. With the problem of distribution solved the necessary durable and consumable commodities will be produced by private enterprise in correct proportion, or the entrepreneur will lose.

The choice of those who possess incomes to-day is not limited to spending them or to making an investment in capital goods either for home or export. There is the option of purchasing some form of national liability, and there is also a fourth option of hoarding which is dealt with in the next chapter. In the second paragraph of the extract from the criticism given on page vi it is stated that, as we tend to save more, the only alternatives are either to expand investments by forcing down interest rates, or to stimulate consumption by redistributive taxation. It is suggested that either method will bring about the desired results. This, however, is not true. It is only by stimulating consumption by redistributive taxation that full employment may become possible. For while the ability to borrow at a low interest rate certainly would appear to tend to expand investments in capital goods, it also means that a low discount rate

is ruling which has the effect of expanding the capital value of investments in all forms of national liability and has diametrically the reverse effect.

The Times of July 22, 1936, has the following remarks by the City Editor on the subject of cheap money :

Cheap money as a cure for trade depression has been the subject of much exaggeration, for in spite of the enormous growth in deposits the advances of the banks are not only smaller than they were 4 years ago, but also smaller than they were 10 years ago. That cheap money has brought certain benefits is not to be denied, since it has enabled debtors to lighten the burden of their debts, though, of course, the debtors' gain has been the creditors' loss. Perhaps the greatest advantage of cheap money has been the raising of capital values of securities of all kinds and the encouragement it has given to new enterprise.

Confusion arises because it is imagined that if the interest rate is low investments in capital goods will be expanded, carrying lower interest charges into the costs of their product, with the result that consumption and employment will increase. This would be true if the sum of interest were reduced, *but the rate of interest gives no guide to the sum of interest.* It is correct to say that the costs incurred by a business for a loan of £2,000 at 5 per cent is £100 p.a. but that at 2½ per cent it would only be £50 p.a., and that, therefore, the lower rate produces the lower sum and would reduce prices to that extent. But implicit interest plays a larger part in costs than explicit interest ; for all explicit interest paid for loans or to shareholders must be

earned in the first instance as implicit interest, and which in the last resort is the difference between production costs and prices. Moreover, it is the capital value created by the implicit interest which is the security against which the loans themselves may be borrowed and for which explicit interest is paid: e.g. suppose a manufacturer to possess a factory, the annual value of which, including land value, building and plant, is £100 p.a.; this sum of implicit interest would be added to costs. If the rate of discount were 5 per cent, then the capital value of the factory on the books would be £2,000, but if it fell to 2½ per cent the capital value would be written up to £4,000, but the sum of implicit interest which was included in costs would remain unaffected at £100 p.a., though it would be calculated as 2½ per cent on £4,000, instead of, as previously, 5 per cent on £2,000. Moreover, if this property had been only leased the owner would receive £100 p.a., as explicit interest upon his investment irrespective of the rate of interest ruling and the capital value of his property.

All capital value in the form of national liability owes its existence to the fact that it represents the total discounted value of a lien upon future production, and it is the relationship between the annual income and its total discounted cash values, or capital value, which is called the rate of interest; for the owner of capital value thinks of his income as a yield of so much per cent on his capital. A fall in the discount rate will increase the capital value of the implicit or explicit interest of an existing

investment apart from any increase in the amount of the annual income. Thus it is the unearned income which maintains the capital value irrespective of whether this income is derived from implicit or explicit interest ; for if the implicit interest ceases for any reason the borrower cannot pay explicit interest, his capital value disappears and he goes bankrupt, e.g. farmers purchased bank mortgaged properties in Australia based upon war prices for staples, and when the currency was more inflated. When deflation was brought about and prices fell the implicit interest disappeared, in fact the prices obtainable did not even cover production costs. These farmers not only lost their ability to pay explicit interest on the loans which they had contracted in order to buy the land, but they also lost any equity value that there had been at the time of purchase. Only a moratorium preventing foreclosure by the banks saved them from bankruptcy.

The same thing happened in this country. In the discussion on the Money Resolution, May 22, 1936, Mr. McLaren (Burslem) said :

During the War, because the German submarines saw to it, there was no foreign competition. Having a restricted market, prices rose, and the tithe rose, but on the top of all that this House passed the Corn Production Act, 1917, giving to the farmers a guaranteed price for corn. What happened as the result of the guaranteed price which was fixed in 1917 ? The values of the land rose. Landowners went to their tenants and compelled them to buy the land practically at the point of the pistol during the rule of the Corn Production Act. They told the people that they had either to buy the

land or get out, and many of these people who had been associated with land for years, bought the land at the high prices established by the Corn Production Act ruling at that time. It was one of the most vicious chapters in the history of landlordism in this country. The occupiers, taking over their land because there was no alternative except to get out, had to pay extortionate prices created by the action of this House in passing the Corn Production Act.

When we removed the Corn Production Act in 1922 down came the value of the land. The security given to the landlord disappeared and the value of the land dropped, but these small men were held to the price they had promised to pay and were mortgaged up to the hilt. They were faced not merely with the high prices which they had to pay for the land which was heavily mortgaged, but with the heavy indemnity of the tithe rentcharge.

If we could imagine an income in perpetuity, say the fifty shillings perpetual annuity called Old Consols or a ground rent in perpetuity with a zero rate of discount, the capital value would be the future incomes added together *without diminution* to infinity, or an infinite sum. How then can a low rate of explicit interest, which under existing conditions connotes a low rate of discount,¹ expand investments in capital goods so as to increase employment?

If, for instance, the interest rate for bank advances fell from, say, 4 per cent to 1 per cent, it would make the construction of a certain class of building—

¹ See *What is National Credit?* for a description of what gives rise to a rate of discount which in its turn gives rise to a rate of explicit interest.

financed by this cheaper loan money—a much more attractive proposition. But what is not taken into consideration in the two options mentioned in the criticism of *The Times*, is that a reduction of this nature in the interest rate, caused in reality by a fall in the discount rate, enables land, which previously had been priced at twenty-five years' purchase of its implicit interest or rental value, on a basis of a 4 per cent discount rate, to be now quadrupled in price to 100 years' purchase, due to the discount rate falling to 1 per cent. So that the advantage of the lower interest rate would be to cut down the annual payments for interest to one-quarter of the original amount, but this would be more than offset by the disastrous fall in the discount rate which would increase the capital outlay needed to purchase the land by four times.

On the contrary, in a highly developed country, a high interest rate does less harm than a high discount rate does good. A discount rate of 10 per cent would reduce the capital value of the national liability to only ten years' purchase, and among other results would make land cheap. It would have the same effect on the capital value as taxing half the rental value of the land compared with when the rate of discount was 5 per cent, e.g. if the rental value were £100 per annum, then with the rate of discount at 5 per cent its capital value would be twenty years' purchase, or £2,000. A tax of £50 per annum would reduce the rental value belonging to the owner to £50, and this, at twenty years' purchase, would be worth £1,000.

But if the discount rate rose to 10 per cent, then even if the rental value remained as high as £100 it would cause the capital value to fall by half to £1,000 without taxation.

It was because the War, the great consumer, raised the discount rate that it created so much prosperity; the loss in prosecuting the War was offset by the increased ability to produce. It is true that the War also raised the price level in addition to the rate of wages, but this was because the War was financed not only by loans at higher interest rates but also by inflation of the currency, apart from taxation. It was only when Peace brought with it deflation in money and heavy consumer taxation to pay the interest on more than ten times the previous national debt that the slump began. Later the contraction in foreign investments, added to the contraction in local consumption, brought down both the discount and interest rates, increasing thereby the capital value of the national liability.

The idea that it is necessary to have a war to increase consumption, and therefore prosperity, suggests the moral of the story by Lamb in which some Chinamen, finding their pigs nicely roasted in their burnt house, used to burn a house containing pigs when they wanted roast pork. There is a simpler method of increasing consumption, helped in its initial stages by a high discount rate, which will bring saving and spending into equilibrium and increase production as a whole (see Chap. VIII).

CHAPTER IV

IMPLICIT AND EXPLICIT INTEREST

FOREIGN investment is no longer profitable. Even the annual tribute, payable to us on past investments, is met with a customs tariff. Consequently, the second effect of endeavouring to expand investments by saving shows itself as a tendency for deposits to overtake advances even at a low interest rate because, as explained above, this also means a low discount rate. This banking up of deposits over advances leads to deflation in the value of everything that money can buy, whilst money tends to become more valuable in terms of everything else ; for when deposits increase over advances, the circulation of currency is decreased.

Professor Gustav Cassel, in *The Crisis in the World's Monetary System*, writing in 1932, makes the following statement :

A Central Bank in a paper standard country has the monopoly of supplying means of payment of legal validity and has the power of regulating this supply so as to establish a certain stability in the purchasing power of its currency. If the Public, in a mood of depression, begins to pay debts to the Central Bank, and if thereby the supply of means of payment is restricted, with the consequence of a fall in the general level of prices, the Central Bank should immediately take measures to

increase that supply, and thus to secure stability for the price level. If the bank fails to do that, the bank is responsible for the ensuing fall in the price level. Its behaviour must be regarded as the cause of the deflation which sets in.

While open market purchases may¹ be made by the Central Bank to neutralize the drift towards deflation, this only deals with one symptom of a disease which has its origin in making a wrong use of income, due, in the first instance, to wrong methods of taxation. There are four alternatives open to the owner of money: (1) He may hoard it, either by depositing it in a bank, as described above, or in the proverbial stocking. This is a symptom that open market purchases deal with adequately and successfully; (2) he may invest it in capital value in the form of capital goods; (3) he may invest it in capital value in the form of national liability; (4) he may spend it.

But just as the consequences of hoarding may be offset by reflation, so may investments in the national liability be nullified by appropriate methods. Then, and then only, will the problem be reduced to a question of only two alternatives: expanding investment in capital goods or spending. If redistributive taxation were adopted without budgeting for a surplus to be made available as loans to finance future capital goods the result would be inflation; for increased spending would increase the demand for consumable goods and would create a demand for capital goods. If these

¹ See Sir Basil Blackett's remarks on p. 55.

fresh capital goods were financed by private bank credit, prices would rise as the demand for consumable products increased, and inflation would tend to develop. Even if the National Banking scheme were in existence with a Labour Government in power any increase in credits used to produce new capital goods, including public works, would tend to create inflation and the devaluation of the currency and a rise in the price level. It would be necessary, therefore, in order to avoid a rise in the price level, to finance these capital goods either from the budget surplus or temporarily from loans which would finally be amortized from the budget surplus (see Chap. VIII).

It is most important that the reason for this should be understood. Any increase in bank credit, private or national (such as the National Banking scheme of the Labour Party), tends to reduce the rate of discount and, therefore, the rate of interest. Consequently, the lower the discount rate fell the more the capital value of the national liability would increase, though in currency having a lower purchasing power. A lien of £100 p.a. in perpetuity capitalizes at :

Discount Rate.	Years' Purchase.	Capital Value.
%		£
5 . . .	20	2,000
4 . . .	25	2,500
3 . . .	33·3	3,333
2½ . . .	40	4,000
2 . . .	50	5,000
1 . . .	100	10,000
½ . . .	200	20,000
¼ . . .	400	40,000
0 . . .	Infinite	Infinite

It is only when the lien or income stream itself—which is the basis of this expanding capital value—is paid into the revenue with its budget surplus, that the rate of interest may be reduced, even to zero, without causing any complementary increase in the price level or in the capital value of the national liability due to the fall in the rate of discount.

The difference between the mass of the liens themselves, called the sum of interest, and the rate of interest has already been explained; for at first glance it would appear that if the interest rate falls, then the sum of interest which goes to the non-producer as such, must also be less. This certainly occurs in the case of explicit interest, for the rate of explicit interest determines the sum of interest, whereas in the case of implicit interest the sum of interest may not be immediately affected. However, since the rate of explicit interest ruling is the reflection of the rate of discount ruling, it is nevertheless of importance since it is the rate of discount that determines the capital value produced by the implicit interest. But it must not be imagined that implicit interest is itself always a fixed amount, it varies just as explicit interest varies.

When the rate of discount is high, with a stable price level, unearned incomes are relatively low and earned incomes are relatively high. Now, unearned incomes are of two kinds: explicit interest and implicit interest, and when the rate of discount is high, the rate of explicit interest offered for fresh

capital investments is also high and represents a relatively larger share of unearned income than implicit interest. Earned incomes are also of two kinds: earned profits and wages, but when the rate of discount is high implicit interest falls, and the benefit of this loss to the non-producer accrues to the producer in the form of larger profits and higher wages, in spite of the rise in the rate of explicit interest. As pointed out in the previous chapter dealing with the prosperity which accompanies a state of war, a high discount rate and unemployment are not found together. This is only true, however, so long as there is a stable or a slightly rising price level. Deflation will also produce a high discount rate temporarily.

The reason for a high discount rate in conjunction with deflation is that there is a loss of confidence resulting from a drop in prices and in capital values but a growth of confidence in the appreciation and therefore the desirability of money. The high discount rate in both cases owes its existence to the high demand for money, but in the case of deflation this desire is due to its added value, since its purchasing power is rising. The high discount rate due to deflation becomes a reflection of the desire for money as "a store of value". But a high discount rate due to the prospect of rising markets is due to an increasing demand for loans in order to finance fresh enterprises for the production of consumable goods for sale at a profitable figure. The high discount rate under these circumstances becomes a reflec-

tion of the desire for money as "a medium of exchange."

Money is a matter of functioning four,
A medium, a measure, a standard, a store!

The illogical deduction *post hoc ergo propter hoc* must be carefully avoided.

A high rate of discount in itself tells us nothing, apart from the stability or otherwise of the price level. But a high discount rate with a stable price level is much to be desired under present conditions, and for this reason details are given in Chapter VIII showing how a high discount rate and a low interest rate could be introduced simultaneously as a fillip to industry. Henry George was quite correct when he said that interest rates rose and fell at the same time that economic wages (including earned profits) rose and fell. The reason being that the higher the discount rate the higher the explicit interest rate; and that capital values (including land values) are lower together with implicit interest (including rental value) when the discount rate is high; for a high discount rate discourages holding land out of use for speculative purposes and causes rental values to fall. A rise in the discount rate tends to destroy all three of the factors composing capital value simultaneously: the income stream, confidence in its reappearance and the numbers of years' purchase. However, the factor of confidence is very important. A slight rise in the discount rate may not lower implicit interest, the income stream, immediately.

IMPLICIT AND EXPLICIT INTEREST . 33

For instance, in the case of land, especially land held out of use, the market value might fall owing to a rise in the discount rate, but so long as there was confidence that the discount rate would fall again shortly, even if that fall had to be engineered by a dose of inflation, hardly any land would be put on the market at the low prices offering. Only when confidence in the belief that the discount rate might fall again was lost would land be offered at the lower market price and cause a fall in the rental value of all land and implicit interest itself. The sum of interest, i.e. the total unearned income which it is our object to abolish, not only forms the basis of land values and all other forms of the national liability but includes also the implicit and explicit interest obtainable at the present time from the ownership of capital goods. Earned profits, of course, are not interest.

The sum of interest might be increased by the simple procedure of increasing the national liability, i.e. by abolishing all taxation and raising the revenue from internal loans; this process could be repeated each following year but with an additional amount added to provide the interest on the previous year's loan. The result of such methods of finance is easy to follow. The consumption of goods would be much less and unemployment would be much greater. The opportunities of investing in capital goods with any chance of making a profit would be much less; loans to the government would be a very welcome outlet to those who would find it impossible otherwise to invest their money, and in

spite of the borrowing of huge sums by the government the discount rate and the interest rate would be very low for that reason.

To-day we have only 39·07 per cent added to our expenditure to pay out as interest on our national debt, but if taxation (more especially direct taxation) were reduced so as to necessitate using the whole of the revenue for that purpose or even, as suggested above, paying the interest itself from loan money, then the rich would grow richer more quickly, and there would be less of them. On the other hand the rest of the population would be worse off than they are to-day. This condition of affairs could be represented by increasing the diameter of the vicious spiral of spurious capital in the graph. The solution of our problem, namely the abolition of the sum of interest, is obviously the converse of the ludicrous exaggeration portrayed above: viz. to budget for a surplus instead of budgeting for a deficit.

With this country no longer a mortgagor but a mortgagee and capitalists no longer mortgagees but mortgagors to the state, owning merely their equities but with their earned profits untaxed, people could retire from business at an earlier age, and obtain their incomes by purchasing life annuities based upon a zero rate of interest. No longer would every stripe on the Union Jack represent a bill of sale registered as a caveat against Great Britain for thousands of millions of pounds. The once proud boast, "*Civis Romanus sum*," would be reflected in our time and generation. But let

IMPLICIT AND EXPLICIT INTEREST 35

us not forget that at a later period *Latifundia perditit Romam*, and it was precisely because *Latifundia* (wide domain) became a liability, like our own national debt, that Rome broke under the weight.

CHAPTER V

REDISTRIBUTIVE TAXATION

THE previous chapters have given the reasons why it is necessary to abolish the sum of interest in order to increase the purchasing power of the producer. -This and succeeding chapters will deal more in detail with the methods which should be implemented by the government in power to bring this about. For simplicity, each chapter will appear as a plank in the platform of a hypothetical "National Asset Party," having for its slogan:



Redistributive taxation should come into force by gradually lifting taxation from the consumer, or spender, and placing it upon the investor, or saver.

The Financial Statement issued on Budget day, April 21, estimated the revenue for 1936-7 at £798,381,000, plus £26,500,000 from motor vehicle duties apportioned to the Road Fund, totalling

REDISTRIBUTIVE TAXATION 37

altogether £824,881,000. The main heads of this revenue were shown officially as follows :

Inland Revenue		£	
			433,000,000
Customs and Excise—		£	
Customs	207,525,000		
Excise	110,000,000		
Total Customs and Excise			317,525,000
Motor Vehicle Duties—			
Exchequer Share	5,000,000		
Apportioned to Road Fund	26,500,000		
			31,500,000
Post Office net receipts			11,256,000
Other revenues : from Crown Lands (£1,350,000) ; from sundry loans (£5,000,000) ; miscellaneous (£20,000,000) ; and surplus transferred from Road Fund (£5,250,000)			31,600,000
			824,881,000

A further analysis of these figures shows how much will be derived from taxation upon actual and potential spendings and how much from actual savings.

FROM TAXES BASED UPON ACTUAL AND POTENTIAL SPENDINGS

	£		£
Income and sur-tax	315,500,000		
Recovery of arrears of tax on excess profits and Corporation profits (now repealed)	750,000		
Motor spirit and oils	48,000,000		
Vehicle duties	31,500,000		
Liquor, including licences	107,215,000		
Tobacco	78,150,000		
Entertainments	7,400,000		
Other customs and excise	76,760,000		
Stamp duties	27,000,000		
Profit on the Post Office	11,256,000		
Total		703,531,000	

BRITAIN IS PAWNED!

FROM TAXES BASED UPON ACTUAL SAVINGS	
Death duties	89,000,000
The old (1692) Land Tax	750,000
Total	<u>89,750,000</u>
BALANCE	
Other revenue (as above)	31,600,000
	<u><u>824,881,000</u></u>

Two forms of taxation are suggested : Death duties and a tax on capital values. Death duties should be increased on estates over £20,000 as the present rates do not discourage the reinvestment of the bulk of the income of the larger fortunes. The net receipts from death duties for 1934-5 were £81,289,774, of which £71,590,996 was estate duty (somewhat less than the taxes on tobacco). It is interesting to note that out of 134,659 estates amounting to £533,690,572 which paid estate duty, only 4,252 estates or less than 3·16 per cent of this number exceeded £20,000. The sum left by these 4,252 persons amounted to £285,872,504 or 53·56 per cent of the total sum which paid estate duty : the percentage of the estate duty paid by these estates amounted to 86·62 per cent of the whole : the average fortune being £67,232.

It is difficult to say by what factor these figures should be multiplied to get an accurate idea of those possessing over £20,000 who do not spend at least a reasonable amount of their incomes. The recent growth of direct taxation in the form of sur-tax has resulted in fewer persons paying tax upon incomes of £20,000 and over during the last three years. But the total net capital values of estates

liable to estate duty in the £20,000 and over class have risen during the last three years. It is suggested that a penal tax should be imposed upon all estates over £20,000 (with an exemption of £20,000) to come into force at the age of sixty in order to encourage the purchase of life annuities and the transfer of property to heirs so as to reduce savings and increase spendings. The sole object of this penal tax should be to discourage wealthy people from having to pay it.

Apart from the amount received from death duties, which would probably not greatly exceed the present figures, the revenue should be raised from an annual tax on capital values. It is considered unjust to discriminate between the two forms of capital value represented by investments as a whole for purposes of taxation, namely liabilities and assets. The effort to introduce the taxation of land values to any degree has failed up to the present¹ for the simple reason that the majority of voters consider that a tax upon a particular form of investment favours unduly those who have invested their money in other forms of investment. It is unearned income as a whole rather than a particular form of unearned income that should be abolished; for it is mainly those in receipt of unearned incomes who reinvest them to such a degree that a disequilibrium between saving and spending is set up, and unemployment follows as a conse-

¹ Except in the case of rating on unimproved land values in Australia and New Zealand, and a very small proportion of their revenues from land value taxation.

quence. This is not to say that if the whole rental value of the country was paid into the revenue and the balance of the national liability redeemed, unearned income would not disappear; but it would still depend upon whether, under these conditions, the necessary equilibrium between saving (in producing capital goods) and spending (in consuming their products) was established and then maintained.

While we are now suffering from over-saving we could overspend, and without a National Asset Fund saving might fall below the required proportion of production needed to produce sufficient capital goods. Then prices would no longer consist merely of production costs and taxation but would once more include interest. This would tend to reduce the demand for consumable goods but to increase the production of capital goods until equilibrium was once more established at zero interest. To obviate this risk the revenue should be budgeted to produce a surplus of at least 50 per cent in excess of the expenditure, which would be known as the National Asset Fund. Thus two-thirds of the revenue would be available for the usual purposes of expenditure, including the interest on the national debt, and one-third constituting the annual surplus would be available for reducing the capital value of the national liability by granting loans against suitable security and for amortizing bonds. Therefore it is proposed to impose a flat rate of taxation in the form of a licence, with suitable exemptions, to register the ownership of both kinds of capital

value. In the case of mortgaged properties the mortgagee would be responsible for his share. As the existing consumer taxes would take at least a year to be reduced gradually from week to week and tariff taxation would take longer, depending upon the reduction in the unemployment figures, these exemptions could be fairly large in the early stages and include capital already placed in trust. It is not from these people that anti-social reinvestment is to be feared.

It is frequently supposed that every form of taxation may be passed on to the ultimate consumer in the form of an increase in prices. This is only true of taxation that will fall in the future upon real wealth either in the form of capital or consumable goods. But it is not true when taxation falls upon spurious capital value; for all taxation levied upon spurious capital value reduces the capital value itself by an amount equal to the capital value of the tax. Nor would taxation already paid upon consumable goods be passed on and added to the consumers' price if similar goods, not yet produced, were to be exempt when produced; for the tax-free goods when produced would determine the price, and in such a case the tax on any unsold goods would fall upon the owner and not the consumer. This is mentioned merely because it is most important that this law governing the incidence of taxation should be understood. Direct taxation destroys spurious capital value and is *ultimately* paid by the consumer in prices once only. Taxation upon capital goods is paid twice and covers interest.

In Chapter I the national liability was divided into three categories: land value, monopoly goodwill and the national debt. In the case of land value, this form of spurious capital value is based upon the rental value which is at all times "all that the traffic will bear" and, therefore, rises and falls in accordance with the amount of the rental value which is obtainable by the owner, modified by the rate of discount ruling. Consequently, any fall in the net yield to the owner due to taxation taking some part of the rental value would result in a corresponding drop in the capital value unless the rate of discount fell proportionately to capitalize the untaxed balance of the yield to its former capital value.

In the case of monopoly profits, these are maintained mostly by tariffs and quotas, and under free trade the capital value built up under tariff and other restrictions would disappear and have to be written off. The capital value of the national debt is maintained by the interest payments due, modified by the rate of discount ruling.

It is, therefore, obvious from what has just been explained that while a tax upon capital values is a direct tax and cannot be passed on twice to the consumer in so far as those capital values consist of the spurious variety, representing about two-thirds of the capital values in the country, it is an indirect tax when those capital values consist of real wealth such as buildings and plant. For it is the threat of taxation falling upon future capital and consumable goods which necessitates the tax

being passed on in higher prices unless their production is to be penalized. To obviate this real danger but at the same time not to differentiate between taxing capital values which are assets and capital values which are liabilities it would be necessary to offset the restrictive effect of a tax on real capital. This would be brought about by granting low interest loans, on the security of all fresh capital goods produced, from the National Asset Fund. There are several possible methods: this money may be loaned immediately at zero interest (with a depreciation charge of $2\frac{1}{2}$ per cent for forty years) or by tender to the highest bidder. In the early stages the demand for loans at zero interest for fresh capital production would exceed the available resources of the National Asset Fund and give those fortunate enough to win a ballot for a loan an unfair advantage over competitors. It is, therefore, suggested that the latter method be adopted, allowing the loan rate to fall ever lower, as the production of capital goods nears equilibrium with the demand for consumption goods, until it reaches saturation point, i.e. zero. The National Asset Fund could also be used for amortizing bonds. Details are given in Chapter VIII of another method of making loans.

The implicit interest which now creates capital value would be paid partly as taxation and partly as explicit interest on loans from the National Asset Fund. Consequently as implicit interest ceased to remain private property, and became common property, the capital value which now exists as

debt would disappear. This is why the slogan "Tax and Lend" is used in conjunction with the snake of debt consuming itself. This is the enormous difference between taxing the saver and taxing the spender. A tax upon the spender, or consumer, is paid twice and does not destroy capital value; on the contrary, it raises the cost of living and leads to unemployment.

All production is distributed either as economic wages or as a sum of interest, or we may say earned and unearned income; but any effort to increase the proportion that is distributed as economic wages (earned income) instead of aiming at the reduction of the proportion which is distributed as a sum of interest (unearned income) is valueless. All efforts to increase real wages along the lines so dear to Trade Unions, such as collective bargaining and the weapon of strikes, are futile and only play into the hands of the non-producers, because these extra costs are passed on in higher prices and in higher rents; the only result is an increase in spurious capital values, and the price level. In fact, while an increase in wage rates may be made to some militant unionists, say the coal miners, to give them temporary satisfaction, it is only necessary to add to the national debt when things have quietened down again to put them back where they were. The proof that the present efforts on the part of wage-earners to force wages to catch up with prices are doomed to failure lies in the fact that the vicious spiral of the ever-expanding spurious capital value has a solid base, the income stream, and this income

stream is obtained from the difference between production costs (earnings) and prices. Whatever form this income stream, or sum of interest, may take it is always added to earned costs and therefore to prices. Whether it be from higher rents due to the workers having more money to spend, from higher prices due to tariffs and quotas, or from higher consumer taxes to provide the interest on fresh national debt, wages can never equate with prices until the sum of interest itself is made common property by being paid as it is produced into the revenue and the National Asset Fund.

To recapitulate : before the rate of interest can be brought to zero, capital value equivalent to the sum of the national liability must be destroyed. One portion will be immediately destroyed by the amount of the capital value of the tax, i.e. the licence to register the ownership of capital value. The balance will disappear, being equivalent to the amount of the security given to the National Asset Fund for loans (less the equity), at the rate of interest ruling, if any. The only capital value that will ultimately remain in existence will be the equities on the property mortgaged to the National Asset Fund ; for the equity on fully mortgaged and improved properties will be exempted from the tax.

When the sum of these equities does not exceed in amount the value of the real wealth in the country, i.e. the cost of its reproduction, the discount rate will fall to zero, abolishing unearned income. Earned income will then obtain a purchasing power equal to the whole product of industry. Real

wealth is the only form of capital value which does not derive its value from a lien on future production, in spite of its present ability to yield implicit interest ; for its highest value is limited to the cost of its reproduction. The more real wealth there is in a community the greater the opportunity there is for remunerative employment. This is true irrespective of the fact that the real wealth may be privately owned. The reverse is true of the national liability ; the more there is of that the less opportunity there is for remunerative employment. Therefore it must be taxed and mortgaged (to the National Asset Fund) out of existence. This is the only form of redistributive taxation which will bring spending into equilibrium with saving and equate consumption with production.

To prove how sensitive capital value is to any tax which may be construed into a licence on its ownership, the following letter, published in *The Times* of May 11, 1937, referring to the National Defence Contribution, shows :

Surprise has been expressed that so small a sum as £25,000,000 from a new tax should have produced such devastating effects on the stock markets. Yet since share values are based on their prospects of yielding a round 5 per cent, and since to represent £25,000,000 a year requires £500,000,000, a fall in share valuation of that order was inevitable and should have been foreseen. Moreover, concessions in the new taxation will not diminish that total depreciation of values unless Mr. Chamberlain will accept a lower total yield.

CHAPTER VI

LIFE ANNUITIES

THOSE who insure their lives may be roughly divided into two classes: the young and poor who need to save and protect their family in case of early death, and the old and rich who save to provide the premiums in order to cover the estate duties so that their fortunes may pass undiminished to their heirs. There are many who claim that thrift is always advantageous in a nation and that too much money cannot be saved, though it is not easy for insurance companies to find investments for the huge and ever-growing aggregate of premiums being poured in annually to cover life policies.

The orthodox viewpoint is that investments distribute purchasing power in wages and profits, and that this money is used to consume the products of the investments. In actual fact there is a disequilibrium between the saving and the spending of the money received from industry, and to the degree that there is insufficient spending to encourage investment in capital goods the savings are diverted into other channels. The pressure of deposits banking up over advances has many effects

which are anti-social in character. The tendency towards deflation unless offset by open market purchases on the part of the Central Bank has already been dealt with in Chapter IV. Then again the pressure of this money forces down the rate of discount as well as the rate of interest, thereby increasing the capital value of the national liability, and encouragement is given to governments to get further into debt by budgeting for a deficit in order to reduce direct taxation and by borrowing this cheap money to provide investments in gilt-edged securities.

If measures were taken to discourage wealthy people from insuring their lives in order to provide for the estate duties and to encourage them to buy life annuities, a large amount of money would be diverted from investment to consumption, from saving to spending. A middle-aged man can buy a life annuity with half the sum required to yield an annual income, and this means that he consumes a portion of his capital each year. If death duties encouraged him to hand over to his heirs, say half his estate in middle age while purchasing a life annuity with the balance, his income would remain the same, but an income amounting to half as much would probably be spent by the heirs instead of seeking investment in capital values. Statistics prove that both the birth rate and the death rate are falling, and that in consequence there are more old people in existence on the one hand and less couples having children on the other. As the years go by these tendencies will increase.

The economic causes of a falling birth rate are intimately connected with the increasing degree of accumulation by reinvestment exercised by the old and rich.

The following remarks made by the Lord Mayor at a dinner given by the Insurance Institute of London, as reported in *The Times* of March 19, 1937, give the opposite viewpoint :

. . . Insurance was a great bulwark, for it made for thrift. He thought it would be in the best interest of the country if the Exchequer would allow insurance to cover death duties, such insurance not to be added to the value of the estate for death duties. The advantage to the country would be that death duties would be promptly paid and the slaughter of the estate obviated. He understood that similar proposals had been made before, but that the Government had always turned them down. . . .

It may well be argued that owners of property are not owners of money, which is required if an annuity is to be purchased, but if a man is offered an annuity of 9 per cent for life upon an investment based upon an interest rate of $4\frac{1}{2}$ per cent it would only be necessary for the insurance company to accept a mortgage and to pay him $4\frac{1}{2}$ per cent in cash for the remainder of his life, taking over the mortgage of the property upon the annuitant's death. The annuitant in this case would have paid no cash for his annuity but a market would have been found for the investment of the life insurance premiums of the young, and a "spending" market at that, helping in its turn to provide a profitable market for the production of further capital goods.

The introduction of investments to finance advance spending by means of hire-purchase systems tended to increase consumption at the time but the repayment of the debts due reduced the power to consume later on. The dispersion of capital to heirs in the case of wealthy people, some years earlier than occurs at the present time, together with the purchase of life annuities, would not only increase spending power immediately but would not cause a reduction in spending later on as occurs in the case of hire-purchase repayments.

Some idea of the increased spending power that heavier death duties would bring about by encouraging the purchase of life annuities may be obtained from the fact that 172 persons left estates exceeding £200,000 in the financial year of 1934-5, amounting to £89,059,085 or an average fortune of £517,785 per head.

CHAPTER VII

A STABILIZED INTERNAL PRICE LEVEL

MR. J. M. KEYNES in his *Tract on Monetary Reform* sums up the need for a stable internal price level as follows :

We see, therefore, that rising prices and falling prices each have their characteristic disadvantage. The inflation which causes the former means injustice to individuals and to classes, particularly to investors ; and is therefore unfavourable to saving. The deflation which causes falling prices means impoverishment to labour and to enterprise by leading entrepreneurs to restrict production, in their endeavour to avoid loss to themselves, and is therefore disastrous to employment.

Professor Irving Fisher of Yale has given details of a scheme for stabilizing the internal price level of a country in his book *Stabilizing the Dollar*. Professor Fisher's scheme is based upon using an index with a varying gold content in the dollar. Any alteration in the index of the price level upwards would be rectified by increasing the amount of gold behind the dollar, and conversely any alteration in the index of the price level downwards would be rectified by decreasing the amount of gold behind the dollar. Details are given with regard to dis-

couraging speculation in foreign exchange. The scheme outlined below is also based upon an index but in conjunction with bonds carrying a varying interest rate. The effect of this method upon the foreign exchange rates is dealt with in Chapter IX. The first proviso is an index composed of a hypothetical commodity basket containing a pre-determined quantity of various goods in certain proportions. The problem is then to arrange the quantity of money, in the widest sense, so that any divergence that may arise between the value of the basket at the time the system was started and the value it may have at any time in the future, is rectified.

Briefly, the method must work somewhat as follows: e.g. let us suppose that the various commodities in our hypothetical basket are worth at to-day's prices, for preference (or the price level which we wish to retain permanently), the sum of £1,000, there exists equilibrium between the value of the goods specified and the sum of £1,000. We may say that the index stands at 1000. After a lapse of time, long or short, some of the goods may have risen in value and others have fallen, making the price of the whole an average of £950. Then we would say that the index had fallen fifty points.

The problem is now to bring the index to parity, or 1,000 once more. Any owner of goods instead of being in possession of £1,000 of value possesses only £950 and is at a loss compared to the owner of £1,000 of money. This means that money has grown in value whereas goods have depreciated in

A STABILIZED INTERNAL PRICE LEVEL 53

value. Our business is to reduce the purchasing power of money sufficiently to bring money and goods into equilibrium once again. This would be effected by increasing the amount of money in circulation, until the index rises to parity. Conversely, a rise in the index above parity to, say, 1050 would be counterbalanced by reducing the quantity of money in circulation, thus making money more valuable and increasing its purchasing power until equilibrium is obtained and the index stands near parity once again.

There is the question of the proportion between the quantities of different commodities which go to make up the index, together with the question as to whether wholesale or retail prices should be used as a basis of calculation. However, indices are being used more frequently these days though the details are somewhat technical. It is not an exaggeration to say that the more use that is made of indices the more perfect the technique will become. Professor Fisher has written a book on this subject. Reuter's daily index of staple commodity prices is published every day in *The Times*. The price level ruling on September 18, 1931, just before the law compelling the Bank of England to sell gold bars,¹ eleven-twelfths fine, at £3 17s. 10½d. per troy ounce, was abolished, is taken as 100.0. On April 5, 1937, the index stood at 202.2. The following paragraphs outline a method of stabilizing the internal wholesale price level.

¹ The obligation to sell bar gold at this price was not imposed prior to 1925.

It would be necessary to convert a portion (and subsequently the whole) of the existing bond issue into "Snubber" bonds. These bonds, though actually inscribed stock, would have a variable interest rate, but their capital value would be fixed at parity. This would be brought about in the following manner: the bond owner would have the right, upon giving three months' notice, to demand cash in national currency¹ in exchange for his bonds at parity, on any of the quarterly days that the interest is payable, subject to certain details. The sum of interest promised by the Treasury may be varied by not more than one mille (two shillings per annum per £100) upwards or downwards, in any one week; but the actual sum payable would be the rate in force on quarter day.

There would be no limit to the number of interest-bearing Treasury bonds issued in exchange for non-interest-bearing Treasury notes, but the notes would have to be cancelled with the issue of the bonds. Nor would there be any limit to the number of notes issued in exchange for bonds, but the bonds would have to be cancelled with the issue of the notes. It would be the duty of the Treasury to so vary the interest rate on the bonds, that sufficient (and no more than sufficient) currency remained in existence, to maintain the price level at, or about, the predetermined index. Instead of the amount of money being increased or decreased, as at present, by the Bank of England, by means of

¹ Similar to the old "Bradbury"; a non-interest-bearing Treasury Note.

A STABILIZED INTERNAL PRICE LEVEL 55

open market operations, the price level would be maintained by varying the promised interest rate on the snubber bonds, e.g. (1) Should the price level tend to fall, bonds would be withdrawn and replaced by notes. This would be brought about by reducing the promised interest rate until sufficient bonds had been surrendered in exchange for notes. (2) Should the price level tend to rise, notes would be withdrawn and replaced by bonds. This would be brought about by increasing the promised interest rate until sufficient notes had been surrendered in exchange for bonds. In this manner the measure of value called the pound sterling could be kept as stable from year to year as the yard or the quart measure.

It is the policy of the Bank of England, working in conjunction with the Treasury, which is responsible for the quantity of money in existence and is therefore responsible for the price level. The late Sir Basil Blackett, a director of the Bank of England when he died in such tragic circumstances, wrote in *Planned Money*, page 68 :

The fact that this index number has varied from 100 in 1913 up to 307·3 in 1920, down again to 158·8 in 1922, and then with a precipitate fall to 99·2 in September 1931, means simply this, that the measure of value has been hopelessly unstable.

The Bank of England is a private banking corporation, and the reason for its existence is not primarily to maintain a stable price level. The suggestion that snubber bonds with a fixed capital value should be introduced would mean that any

extra currency that could be absorbed without inflating the price level would come from changing a portion of the national debt, i.e. bonds bearing interest, into notes not bearing interest. The profit on providing this extra national currency would then accrue to the Government in a saving of interest and not to any private banking companies. As the law now stands, any profit from this source made by the Bank of England may be handed over to the Treasury "by arrangement." It would be necessary that the ratio of cash to bank deposits should be increased and legally enforced so as to make the exchange of snubber bonds for legal tender currency the sole controlling agent of the supply of money. Professor Soddy claims that about £25,000,000 a year of bank money is now issued by the banking system as a whole.

The effect of building up a National Asset Fund would be to take away from the banks the long-term mortgage business. However, with the absorption of the unemployed, business would be more prosperous in short-term loans. The banks would increase their turnover both in the time dimension by discounting future payments for cash and also in the space dimension by buying and selling foreign exchange.

It is interesting to note Professor Gustav Cassel's remarks dealing with the question of the price level in his book *Money and Foreign Exchange after 1914*. On page 240 he says :

In every country during the period of deflation the doctrine was taught that to bring down the price level

A STABILIZED INTERNAL PRICE LEVEL 57

and to produce more cheaply were the two essential conditions, if a country wished to retain its share of the world market.

There can be no doubt that this idea was one of the most potent factors which accelerated the process of deflation. We know that this idea is false. A lowering of the general price level in a country must have the effect of making that country's currency in its international valuation rise in a corresponding degree, so that the situation as regards the foreign buyers of the country's export products remains on the whole unaltered.

What the world's trade needs in order to be able to thrive and flourish is stability, a fixed price level in each separate country, and firm exchange rates¹ between the various countries.

Meanwhile the authorities in U.S.A. have decided to stabilize the rate of discount at a low figure by a slight increase of inflation so as to maintain as far as possible the capital value of bonds at their present level, rather than to stabilize the price level and prevent it from rising by slightly increasing the rate of discount but which would cause the capital value of the bonds to fall still further. *The Times* of April 6, 1937, has the following item under the heading "New step to protect market values," New York, April 5 :

The Government announced last night, through the Federal Reserve Board's Open Market Committee, a further step for protecting the market values of its securities and for supporting the easy money policy it considers essential for the continued expansion of industrial production and the increase of employment. This

¹ See Chapter IX.

step is the purchase by the Open Market Committee of Federal securities in the open market for account of Reserve banks "in such amounts and at such times as may be desirable."

It was stated by the Open Market Committee as an object of its proposed purchase of Federal securities that it wished to "facilitate the orderly readjustment of member banks to increased reserve requirements effective on May 1."

In the past few weeks there have been several sharp falls in Government securities, such support as the Treasury was able to give to the market proving inadequate to do more than check the rate of decline, and now six separate issues are selling below par although all earlier this year commanded substantial premiums.

In to-day's market Government bonds rallied and rose from $\frac{1}{4}$ to 1 or more above their Saturday closing figures, but in fresh selling lost about half their gains.

In this country Reuter's index on April 5, 1937, was 202.2 compared with 144.1 on this date in 1936, taking September 18, 1931, as 100.0. This means that the cost of living has risen to over double what it was five and a half years ago and is equivalent to an index of 1403 on April 5, 1937, if April 5, 1936, is taken as 1000; a rise of 403 milles or 40.3 per cent. Further, a wage of £3 a week is worth to-day £3 in April 1937 money but only £2 2s. 9d. in April 1936 money, a fall of 28.75 per cent. So that wages which have not been increased for twelve months should be increased by 40.3 per cent and in this case to £4 4s. 2d. to regain the purchasing power of £3 in April 1936. These figures prove conclusively the futility of increasing wages by collective bargaining; for any increase in purchasing

A STABILIZED INTERNAL PRICE LEVEL 59

power obtained in this manner can always be offset by increasing the cost of living so long as the power to control the index is not in the hands of a government pledged to keep the index at a stable figure.

So long as a sum of interest exists, then so long will economic wages represent but a fraction of the total product. That the efforts of trade unions have been successful in increasing the numerator of that fraction is not denied ; but of what use are these efforts when the power to increase the *denominator* of that fraction resides elsewhere ?

CHAPTER VIII

VARIABLE BORROWING AND LENDING RATES

WHILST a bond issue having a fixed capital value with a varying interest rate may be used for the purpose of stabilizing the internal price level, in preference to open market purchases and sales controlled by the Bank of England, there is another use to which a varying borrowing interest rate on bonds may be put.

Bearing in mind that our objective is not only to divert the sum of interest which now goes to the non-producer (so as to increase the proportion of production which will accrue to earnings) but also to abolish the capital value of the national liability, it is suggested that the government, in order to start its operations in its effort to abolish the national liability, should raise the discount rate; for the higher the discount rate rises the lower will capital values fall. Consequently, apart from the issue of bonds for the purpose of obtaining notes for cancellation, when it might be necessary to offset any tendency for the price level index to rise, it would be advisable for the government to borrow money internally at a high rate of interest.

BORROWING AND LENDING RATES 61

This money would be offered on loan for one year, renewable at the borrowers' option from year to year at 1 per cent (or even more in the early years) *below* the variable interest rate paid on the bonds. The government lending rate for the first year would be by tender to the highest bidders, against the necessary security, upon the condition that the money was to be used solely for the production of fresh capital goods. The production of capital goods, and employment, would be stimulated by this cheap loan money from the very start, instead of having to wait for the National Asset Fund to have grown large enough from the revenue surplus to provide these loans.

The rate of discount ruling would be determined by the government borrowing rate so long as the sale of bonds was limited only by the demand at that rate. The National Asset Fund would derive its income from the budgetary surplus and invest it in making further loans on the security of capital values which already exist, and later in amortizing the bonds themselves. Thus the spurious capital values of the national liability would not only disappear by these investments of the National Asset Fund but also by the high rate of discount ruling. Saving and spending would be kept nearer equilibrium in the early stages by a high discount rate but a low interest rate. With the growth of the National Asset Fund the government borrowing rate would be reduced, and with it the discount rate, until finally the net government borrowing rate (the quoted rate less the tax) would be reduced

practically to zero. The lending rate on the security of fresh capital goods would then fall to zero, say $2\frac{1}{2}$ per cent for forty years, so that the repayment of loans for the purposes of producing capital goods would be repaid by the time depreciation had done its work.

It would not require a very great difference of "potential" between the borrowing and the lending rate to make the National Asset Loan Fund the only lender, and for existing mortgagees and other investors to prefer bonds to any other kind of investment. Moreover, the higher borrowing rate would tend to prevent, at least in the earlier stages, the export of capital to countries which might, all things being equal, otherwise attract it. It is the fact that it is impossible to prevent the export of capital under the gold standard with private enterprise (except exchange control which penalizes private enterprise) that causes so many people to think that short of Socialism it would be impossible for any country to have a much higher wage level than another because capital would always flow where it could obtain the highest interest rate.

So long as exports are allowed without exchange control (see Chapter IX), then their owner may refuse to sell the foreign money realized for them to a would-be importer, preferring to keep it himself and invest it abroad. On the other hand, by the government offering a high interest rate on bonds not only is money attracted for local investment but the clamant need in this country for those capital goods which can only be profitably produced

by private enterprise if financed at a minimum interest rate, will be satisfied. There are also forms of capital goods which must be produced which should carry no interest charges: e.g. all forms of public works, and consumable goods requiring time to mature, e.g. tobacco, leather, wines and spirits, could be used as a basis for loans at zero interest within reasonable limits. It is far easier for the government to borrow this money at a high rate and then cancel the necessary amount of bonds by using the proceeds of the surplus for this purpose, than to attempt to raise the money needed to stimulate industry by taxation in the first instance.

The object of this book is not to destroy individual thrift, but to encourage national thrift by the community through the agency of the National Asset Fund whilst encouraging individual spending. There will always be a certain amount of individual thrift, and the new principle of making the borrowing rate higher than the lending rate would enable the government to keep the ratio between saving, i.e. the production of capital goods, and spending, i.e. the consumption of consumable goods, at the correct ratio.

Industry to-day may be compared, with a little imagination, to a motor-car with everything ready to start except that the battery is flat. The effect of the government deliberately raising the borrowing rate (the rate of discount) a few points above the lending rate (the rate of interest) could be compared to turning over the engine sufficiently to

start the car. The initial stroke may be compared to money capital supplied from the National Asset Fund at a low interest rate—sucking in the gas; the second stroke to the compression which is the effect of a low interest rate not being met with the expansion of land values due to an equivalent low discount rate, but on the contrary to a firm resistance to expansion due to a higher discount rate; the explosion due to the spending of the borrowed money capital paid in wages as *consumption*, and the fourth clearing stroke takes the spent wages back through taxation of the non-consumer into the budgetary surplus and the National Asset Fund once more.

CHAPTER IX

THE RATE OF EXCHANGE

THE rate of exchange ought to be freed from all government interference with regard to exchange equalization operations or any threatened return to the gold standard, and should be allowed to react freely to the requirements of buyers and sellers of foreign exchange. An excess of imports over exports, apart from the interest on our foreign investments, would have caused gold to leave the country under the gold standard, with the consequent collapse of credit and prices, unless neutralized as explained in Chapter XI. Protection was introduced to restrict imports and to protect the country from the risk of having to export gold. The value of gold itself has always been unstable; rising as the internal price level fell and falling as the internal price level rose, though these tendencies could be counteracted temporarily by increasing and decreasing the expansion of credit respectively. Sir Basil Blackett on page 74 of *Planned Money* says:

Indeed, it is not far short of the truth to say that the whole modern system of protective tariffs throughout the world owes its origin to the attempt to combine national economic policies with the existence of an

international monetary standard which was not a stable measure of value.

It is claimed that these various methods of fixing exchange rates aim at solving the problem of distribution. In reality it is the effect produced by fixing exchange rates, whether by means of the gold standard or by a stabilizing fund, which has led to the introduction and maintenance of tariffs and quotas. To fix exchange rates means that our internal price level becomes variable, as a study of the results of going back twice on the gold standard since the War will show.

The problem of equitable distribution may be solved *without reducing the sum of production* only when we reverse this process, and stabilize the internal price level whilst allowing the exchange rate to be the variable factor. To paraphrase a famous sentence, "We have stabilized variables and allowed those things which ought to 'stay put' to become variables, and there is no wealth in us."

To leave the rate of exchange to those whose business it is to buy and sell foreign exchange and to set our face against any of the various methods adopted by several governments to control the rate does not mean that large variations in the rate are constantly going to take place. To quote once more from *Money and Foreign Exchange after 1914*, Professor Gustav Cassel says (p. 143):

However, it is evident that the exchange rate between two countries must always fix itself in accordance with the price level in either country, so that a certain amount of trade between them becomes possible. That sentence

in itself is quite useful. It makes it clear that trade between two countries cannot, as frequently imagined, be nullified or even hindered through the level of prices in one of the countries being high. This disadvantage is indeed invariably adjusted by the exchange of that country falling in proportion in international value.¹

With a free exchange rate tariffs would become unnecessary since the exchange rate would itself constitute a natural protection against an excess of imports, and a stabilized internal price level is already provided for. Any tendency for imports to exceed what we obtain in the way of tribute from our foreign investments and what we receive in barter for our exports, would cause so much difficulty in finding foreign currency to pay for them, that our exchange rate would fall until imports became unprofitable. All imports would become too dear in sterling for the local would-be consumer to buy, and the excess of imports would therefore cease.

Yet this same fall in the value of sterling in foreign currencies would encourage exports by enabling the price to be lowered in foreign currencies without altering their selling price by the exporter in sterling. The more imports that could find a market here, even if their price in sterling for local consumption were to rise, the lower our export prices in terms of foreign currencies could fall without having to reduce our prices in sterling to foreign buyers.

As some countries have the class of mentality that believes that their exports should exceed their

¹ See *Exchange Control*, by Paul Einzig, for a list of all the possible ways of interfering with a free market in foreign exchange.

imports, and even call this state of affairs "a favourable trade balance," it would probably mean that a tariff would be imposed to prevent our goods reaching them at that price. The result of such action would be to cut down our imports being paid for by barter and cause our exchange rate to fall, i.e. the value of sterling in foreign currencies would fall. This would make our imports too dear to attract consumers far sooner than would be the case if our importers could buy foreign exchange from our exporters at a profitable figure. In short, the action of foreign countries in putting on a tariff against us when we try to obtain foreign currency (by selling them goods) to pay for our imports is to restrict their own exports to us.

However, although foreigners may behave in this foolish way, that is no reason why we should adopt an equally foolish policy and restrict production as a whole by imposing tariffs. If a man smacks you on one cheek that is no reason why you should smack yourself on the other. By encouraging such nations to "dump" their so-called surplus goods by abolishing the existing restriction on imports and letting them inflate their currency (if they are so foolish as to do so) so that sterling could buy their currency very cheaply, we (collectively) could obtain a large amount of wealth with very little effort nor should we be owing for it. Moreover, it would make for peace, creating goodwill from all European nations.¹ The strong argument being put forward

¹ "If goods cannot cross international frontiers, soldiers will," the Assistant Secretary of State of the U.S.A.

at the present time by Germany that she requires colonies from which she can purchase raw materials in German currency would be immediately refuted if free trade and a free market for foreign exchange were adopted, not only by Britain but by all the nations. Under such conditions the whole world would become the colony of every nation. Britain herself would be of more value for trade purposes to Germany than parts of the Empire are to us to-day, suffering as we are from high tariffs on many goods, including both those imported and those exported from Britain to the Dominions. If, on the other hand, the present system of restriction is persisted in, detrimental as it is even to our own producers, then undoubtedly it will cause another European war. Meanwhile it is costing us armaments.

Now that the French Government has adopted a free-trade policy with regard to foreign exchange, it would be well advised to follow this up by going off the gold standard entirely but increasing the value of the franc simultaneously to a figure not exceeding an exchange value of 100 francs to the pound sterling; thus following the lead given originally by Sweden in going off gold but increasing the value of Kronor above their previous value in gold. A loan carrying an interest rate rising even above 5 per cent for the purpose of buying up and cancelling the redundant francs would effect this, so long as provision was made that bonds owned by the banks and private individuals pledging them were not used as a basis for issuing bank

credit, and therefore replacing money into circulation which the issue of these bonds had cancelled. This could be accomplished by legally enforcing an increase in the ratio of cash to deposits held by the banks along the lines of the suggestions made by Professor Soddy in his various books and also by Professor Irving Fisher in his book, *100% Money*. The internal stability of the currency can best be achieved through controlling the discount rate and the amount of bank credit, and not by exchange control and tariffs. The reader is referred to *My Yesterdays* by Lord Frederick Hamilton, in which reference is made to the prosperous times in France in the middle of the last century when Hausmann was building the *grands boulevards*, and when the price of money never fell below 5 per cent.

Strangely enough those who advocate "stabilization," meaning stabilization of exchange rates *but not stabilization of the internal price level* have suggested that even England might otherwise compete in a race for a depreciated currency. This idea is based upon a fallacy which is fully explained in Chapter XII of *Protection or Free Trade*. This book may be obtained from the Editor of "Land and Liberty," 94 Petty France, London, S.W.1, for ninepence, post free. One reason for the belief that exports are more desirable than imports is to be found in the fact that the banks will give the exporter credit just as soon as the goods have left the country, on the security of the goods. On the other hand, the average trader working on an overdraft finds that the money for his imports, as soon

as the man he sells to pays him, is used to reduce his overdraft. So that, though exports make us (collectively) poorer in goods, they make us (individually) richer in money; and though imports make us (collectively) richer in goods, they make us (individually) poorer in money.

It is a thousand pities that the European languages have not the accuracy of the Melanesian and Polynesian dialects in distinguishing the "we" and "you" and "our" and "your" into their respective logical "moods." One word means "we," i.e. you and I, but not the others present, or not present. Another word means "we," i.e. all you here and I, but not those not present. Another word "we," i.e. all in this village or category, but not the others; and so on in ever-widening circles of inclusiveness. Probably, had we such accuracy in language, the present tangle of ideas would not have occurred. Brigadier-General J. H. Lloyd has done excellent work in trying to educate people along these lines. These activities have now been taken over by the World Foundation, of 53 Haymarket, London, S.W.1.

With the growth of the national liability and the increase in unemployment, economic nationalism, quotas, subsidies and tariff restriction grow in favour. The desire for an increase in the total production of "our" wealth gives way to individual and sectional efforts to provide for more equitable distribution, even if the methods adopted tend to sabotage production itself. But with a national asset in place of the existing national liability any and every increase in the total production of wealth

would be reflected in individual well-being through equitable distribution.

There need be no fear that dumping would reduce our own level of wages. The arguments which have been developed by those who really benefit from tariffs, and who are thereby enabled not only to raise the prices of their products, but also the capital value of the shares in their business, are to the effect that local wages would be determined by the wage level of competing countries if we had free trade. This is a lie which no self-respecting working man would have accepted had he attempted to study these questions instead of wasting his time in trying to win some football "pool." The truth is that local wages are determined by the alternative of the highest level of existence otherwise available, and in primitive times this meant the alternative of a livelihood on the best quality of free land available. To-day it means that wages equal the total product of the producer, less the sum of interest.

This sum of interest can be increased by increasing the national debt to reduce real wages and increase unemployment to any degree, though in practice a policy of restriction of credit is more rapid in its effect in damning the efforts of a government which is disliked by those who control the issue of credit. On the other hand, by budgeting for a surplus and building up a National Asset Fund we can reduce the sum of interest to any degree, even to zero, thereby increasing economic wages to the maximum, i.e. the total product would go to the producers. The percentage of production obtainable as wages

is entirely under the control of each nation so long as it enjoys free trade. The greater the national liability the lower real wages must fall irrespective of all legislation affecting money wages to the contrary, other than legislation abolishing the national liability itself. Tariff restriction, called euphemistically Protection; for its name is its only recommendation, increases, not decreases, the national liability by increasing spurious capital values. The idea that a tariff wall designed to keep out the "dumped" products of foreign low-paid labour or more efficient modes of production is favourable to a high percentage of local production accruing to the wage-earner in consequence thereby, is one of the greatest confidence tricks ever played on the population. This is not to say that Britain might find that certain industries should be encouraged which could not remain solvent under free trade both in goods and foreign exchange. However, it is doubtful whether many industries, mortgaged to full capacity to the National Asset Fund at zero interest, which fail to thrive should be uneconomically subsidized by a bounty. Nevertheless, there may be some: for instance, there are good reasons for insisting upon a quota of English films, apart from trade purposes, in possibly American-owned picture houses.

The public is quite ignorant of the arguments in favour of a free market for foreign exchange, because the newspapers have constantly referred to the present absence of the gold standard (although the Bank of England still issues notes against gold

based on its original price) as a *pis aller* and have welcomed the agreement between France, U.S.A. and this country for the stabilization of exchange rates.

Referring to these equalization funds *The Times* of March 2, 1937, says :

According to the records kept by the Customs authorities, imports of gold from France since the beginning of the year have amounted to £39,279,098, while exports of gold to the United States in the same period have amounted to £29,992,398. It is necessary to point out, however, that these shipments have nowadays no direct connexion with contemporaneous transactions in the foreign exchanges. With exchange equalization funds operating in all the important markets, and cooperating in the technical measures necessary to prevent disconcerting movements in exchange rates, an outflow of funds from one centre to another can take place without any physical movement of gold. The French equalization fund can, for example, meet a demand in Paris for sterling by releasing gold to the English fund, earmarking gold still in its custody in favour of the British Exchange Account. Or the American fund can take up an excess of sterling offered in New York by supplying the dollars required, and then selling the sterling it receives to the British fund for gold, the latter earmarking gold in London in favour of the American fund. At some time gold will be transferred physically, but not necessarily—in fact, quite rarely—at the same time as the change in its ownership, which is, from the point of view of exchange transactions, the only significant transfer. Moreover, one of the subsidiary objects and advantages of cooperation between exchange funds is the avoidance of the backward and forward movement of gold between centres which the backward and forward movement of liquid funds might otherwise involve.

What we really need is no tariffs and free trade in foreign exchange so that an excess of imports will meet with the natural protection of a falling rate of exchange. A little impartial consideration will show that, *given a stabilized internal price level*, there is no real difference between the advantages accruing to production from allowing private enterprise to produce local goods or produce foreign goods by exchanging local goods for them, and for English people to obtain possession of foreign moneys owned by other English people for the purchase of foreign goods or for foreigners to sell sterling to other foreigners to enable them to purchase English goods.

A degree of judgment accompanied by risk is required by an entrepreneur to contract for a future supply, say of wheat, and apart from factors which make for monopoly control, competition will enable such entrepreneurs to earn an economic wage from the sale of flour. The same arguments apply to those entrepreneurs whose business it is to buy and sell sterling and foreign exchange.¹ So long as the price level is stabilized internally an open market for foreign exchange will give foreign currencies a fairly stable measure of value for traders. Importers, for instance, who do not wish to run the risk of any variation in rates between the time of placing their orders and the due date of payment may purchase forward foreign currency at a fixed

¹ An excellent impression of the practical side of this business may be obtained from reading *The Foreign Exchange Market*, by H. F. R. Miller (E. Arnold, 8s. 6d.).

price in sterling, just as millers may purchase forward wheat at a fixed price.

On the other hand, if the price level is not stabilized it will be a reflection of the foreign exchange rate, and if the value of sterling falls abroad, i.e. an increasing number of pounds sterling is required to buy foreign currency, then there would be a corresponding rise in the price level. It was the desire to obviate this possible devaluation of the currency that the gold standard was originally adopted, to be replaced now by the Equalization Fund in conjunction with high tariffs. The reason why the internal price level has never been stabilized independently of the exchange rate is that it would require manipulation of the discount rate, and a high discount rate would reduce the spurious capital values comprising the national liability. It is the existence of these spurious capital values which tend to cause devaluation and a rise in the price level; for they are expanding, and since they are used as security for bank credit, bank credit expands with them. Not only do these expanding spurious capital values make the stabilization of the price level impossible but the income which forms their base, i.e. the expanding income stream, also reduces the proportion that wages can buy in relation to prices: the disparity between production costs and prices increases. Whilst the policy of the non-producer has always been to keep exchange rates permanently fixed, introduce tariff restrictions, keep the rate of discount low and the national liability high, it should be the aim of the producer to reverse this

policy, and stabilize the internal price level, adopt free trade in both goods and foreign exchange, raise the discount rate as required to maintain a stable price level, and finally replace the national liability by a National Asset Fund. Only then may the discount rate fall to zero, without expanding spurious capital values; for they will have disappeared.

It is possible to keep real wages low with an increasing national debt without an equivalent alteration in the value of sterling in foreign exchange by exchange control. Though the price level has just doubled according to Reuter's daily index of staple commodity prices from 100 on September 18, 1931 (under the gold standard), to 202.2 on April 5, 1937, the rate of exchange judged on the variation in the price of gold does not reflect this difference; for gold has not doubled in price calculated in sterling. The important point to notice is that with a free market for foreign exchange, i.e. free from any equalization fund, it would be impossible to prevent a fall in the value of sterling in foreign currency not being reflected in a rise in the price level unless the rate of discount were raised to take the surplus currency out of circulation. This could be effected either by open market sales by the Bank of England, in which case the currency received by the bank for the securities sold would be cancelled, or by the method described in Chapter VII. Either of these methods would raise the value of sterling in foreign currency, without exchange control, as an *effect* to putting a stop to a rise in the price level. But it would also reduce the national liability by depreciat-

ing capital values due to a rise in the rate of discount, i.e. the bank rate would rise well above its present figure of 2 per cent.

This is why exchange control is preferred to a free market in foreign exchange, and exchange control has been implemented in this country, U.S.A. and France by equalization funds raised for that purpose, but in the case of Germany and Italy by more stringent methods. It is even claimed by these countries that to export money is an unpatriotic act. If Germany and Italy introduced a free market for foreign exchange it would necessitate a further rise in their discount rates with heavy open market sales, cancellation of currency and a severe drop in capital values to prevent their price levels rising and their exchange rates falling. Faced with the choice of exchange control or a reduction in their national liabilities, they have chosen the former. In the case of both nations the cause is a superabundance of currency which is in turn due to extraordinary expenditure on armaments, and we ourselves may find exchange control becoming more stringent in this country shortly, if any considerable portion of the armaments loan is subscribed through the medium of fresh bank credit. This will result in the export of money being more severely scrutinized, and even propaganda may be started to decry such a proceeding as an unpatriotic act.

Exchange control thus involves the following contradictions: a surplus of exports over imports is considered an advantage; if the owner of the foreign currency obtained for these exports purchases

imports which are most in demand and therefore promise the most profit a tariff is raised against them : if the owner, because of the tariff, decides to leave his foreign currency invested abroad, then he is dubbed unpatriotic, possibly fined, or even imprisoned !

The reason why Germany and Italy have adopted this policy is as follows : raw materials cannot be purchased by barter for exports in sufficient quantities because the tariffs of other countries keep out quantities of German and Italian products, and especially the tariff of this country. Therefore what valuta or foreign currency there is, belonging to their exporting nationals, is taken over by these governments for purchasing raw materials, especially raw materials needed for armaments. Their nationals are given fiat money in their own currency in exchange, and as both countries are on a modified gold standard, exchange control is a necessary corollary to the above procedure.

To an unbiassed observer the whole thing is so ludicrous as to be almost unbelievable, if it were not so tragic ; for this refusal to face facts and to reduce the tariffs *and* the national liabilities of each country is leading Europe straight into war. It is possible, of course, that those who control the responsible heads of governments are ignorant of the alternatives to exchange control, high tariffs, huge national debts and unemployment, and that they are merely fools, not knaves. But the strong probability is that these people thoroughly appreciate the alternatives : loss of capital value, in short loss of money

power, so that they would rather risk war than to be shorn of their power based on the ownership of the nations' spurious capital values; the nations pawn tickets.

The foregoing argument does not mean that the principle of budgeting for a surplus and building up a National Asset Fund would be nullified if exchange rates remain fixed by the action of equalization funds. Nor does it mean that the continuation of tariffs would have that effect. It means that once the problem of equitable distribution to the producers is solved through the possession of a National Asset Fund of sufficient proportions, no advantage would remain to anybody by continuing to sabotage production itself through retaining tariffs and exchange control.

To recapitulate: the theories held by governments under the gold standard were based upon the following sequence: (1) that exports, including invisible exports in the form of shipping services and inward tourist traffic, should exceed imports, and the difference should be received in gold; (2) the currency of every country should be based upon gold so that with the exception of a possible variation within the gold points exchange rates should be fixed, each country having thus a mint parity in terms of every other currency; (3) imported gold became the basis of local currency against which the Central Bank issued notes and enabled the bank rate to be kept at a low figure; (4) a tariff was imposed to discourage imports of goods but encourage imports of gold in payment for our exports, and

to restrict " dumping " ; (5) the argument in favour of a low bank rate was that it encouraged investment and consequently employment ; (6) the argument in favour of Protection, or to speak more accurately, tariff restriction, was that the effect of keeping cheap goods, made by low-paid workers, out of the country enabled employers to pay higher wages.

Logically, to increase the amount of gold imported to the maximum and enable the bank rate to be reduced and maintained at a minimum, tariff restriction should be increased until it amounted to a prohibition of imports whenever it is possible, irrespective of the cost, to produce similar goods locally. Thus it will be seen that the gold standard encouraged the creation of tariffs quite apart from the fact that gold was not a stable measure of value, as suggested by Sir Basil Blackett. In fact, tariffs would have been imposed long before they were had it not been for the amount of foreign loans and investment which did not require balancing with imports.

In opposition to the ideas expressed above, and which are held in such reverence by all the powers that be ; for the gold standard still exists in a modified form, it is claimed : (a) that there should be free trade in goods and foreign exchange based upon a stabilized price level index ; (b) that a rise in the bank rate would be beneficial and not detrimental to production under present conditions ; (c) that with free trade local wage rates would not be determined by foreign wage rates unless there is a national liability.

CHAPTER X

NOT A CAPITAL LEVY

IN seeking for a solution to unemployment two tendencies have generally been condemned as responsible for decreasing the wages bill: improved technical methods of production, enabling machinery to be used with greater efficiency with a reduced wages sheet, and the growing "flood" of imports due to us as yearly tribute on our huge investments abroad. It is claimed that in consequence of these tendencies spending power has been reduced. The fallacy in this reasoning lies in the fact that though spending has been reduced, spending power has not.

A little consideration will make it clear that the spending power of the wealthier section of the community has been increased at the expense of the wage-earners. It is because this wealthier section has not spent this added income as freely as the wage-earners spent it when they had it as wages, that unemployment has been on the increase. There have been apparent exceptions in what are termed boom periods, but these boom periods have been caused by a slight dose of inflation. This has had the effect of increasing the spending power, and the spending, of the producers, thereby reducing

the relative spending power of those who normally do not spend their whole incomes but tend to reinvest a large portion of them, mainly in some form of national liability. With a stable internal price level and a change in the system from taxing the spender to taxing the saver, the spending power of the producer would be so increased that "dumping" from abroad would be welcomed instead of being frowned upon as one of the causes of unemployment.

These suggestions must not be confused with the idea of a "capital levy." The capital value which we must destroy is not wealth but debt, and its destruction should not be made by any attempt to transfer a lump sum from individual wealthy men to the government. The capital value is not money but merely the capitalized value of a sum of interest "in sight" so that its destruction should be brought about by transferring the unearned income (not the capital), as it is produced, to the government.

To the degree that the present methods of indirect taxation are changed for direct taxation in the form of an annual licence on capital values, with certain exemptions, capital values will fall by an amount equal to the capital value of the taxation imposed. If the present system of budgeting for a fixed sum every year to cover the interest and sinking fund on the national debt were extended to cover the revenue and the sinking fund, say £1,200,000,000 a year, which would allow about one-third for the sinking fund, or National Asset Fund, the amount of capital

value destroyed would be proportionate to the percentage of this sum raised by direct taxation in this manner.

Some idea of the amount of the annual licence which would be required to register the ownership of capital value in Great Britain may be obtained from an investigation of Australian figures. In 1929 the total value of investments in the Commonwealth, arrived at by the inventory method, was stated, in the Commonwealth Year Book, to be approximately £3,351,463,000. For the year ended June 30, 1933, taxation (federal and state) amounted to £93,471,635. Had this sum been raised on this basis it would have been necessary to impose a licence of 6·69*d.* in the pound to own property (capital value).

It is interesting to note that about 60 per cent of this, however, is for interest. The total interest bill as at December 31, 1933, amounted to: paid in Australia, £23,343,182, and paid abroad (England and America), £26,455,930. The latter carried a cost of 25 per cent exchange increase, bringing it up to, say, £33,067,412. So that the total interest bill amounted to £56,410,594. If we deduct this sum of £56,410,594 from the total taxation of £93,471,635, we have a balance of £37,061,041 representing the actual revenue available for expenditure other than payment for interest. This means that the total sum available for expenditure in the States and the Commonwealth had to be increased by 152·2 per cent, as compared with our figure last year of 39·07, to obtain the interest for the Australian national

debt. This is equivalent to saying that for every £1 required for expenditure, taxation in excess of £2 10s. was imposed to provide approximately £1 10s. in interest charges. Is it any wonder that unemployment in Australia grew to such an extent that immigration from Great Britain was stopped?

The bulk of this revenue was, of course, obtained by means of consumer taxation. If the figures of twenty milliards of national liability and ten milliards of real wealth as given at the end of the first chapter are taken as approximately correct, then a licence of 4 per cent on the total of thirty milliards would be required to raise £1,200,000,000. It is suggested, however, that no more than 2½ per cent should be imposed at the start, and that with the abolition of consumer taxes and the fall in capital values the rate should be subsequently increased to within a margin of about 1 per cent of the rate paid on the variable interest-bearing bonds.

With the growth of the National Asset Fund, what is now implicit interest obtainable from the ownership of real wealth will be paid as explicit interest on the mortgages contracted with the National Asset Fund. Thus, while the immediate effect of imposing an annual licence to register the ownership of capital value will destroy the bulk of the existing national liability, it will take several years to transfer the existing implicit interest on real wealth to the National Asset Fund, and only when the whole of this has passed from private ownership to common ownership in this manner will the rate of discount fall to zero.

CHAPTER XI

WOULD CAPITAL BE EXPORTED ?

To some it may seem obvious that a licence on capital value would encourage the export of capital to avoid the tax. This is an important question and the two objects in view, viz. the abolition of the national liability and the reduction of interest to zero, may have different reactions in relation to it.

With regard to the former, it would be quite possible to abolish the national liability by direct methods which would not necessitate a tax on all forms of capital value. For instance, land values could be repudiated by pooling rent, and monopoly goodwill could be repudiated by introducing free trade, and finally the national debt interest could be repudiated. The two former direct methods are associated with the name of Henry George.

The question is, having in view the fact that approximately two-thirds of the capital value in the country is spurious and not wealth at all, in short, the country is pawned for twice as much as it is worth, though the interest is guaranteed by the producers, what is the most reasonable and just method of getting rid of this debt ? In suggesting a licence on capital value there is no necessity to

try and tax money on current account ; it is only interest-bearing investments that should pay a portion of the interest itself to provide the revenue for the budget and its surplus apart from estate duties. Moreover, the government borrowing interest rate on the variable interest-bearing bonds would be increased higher than the lending rate and offer a good rate of interest, after paying the licence, at least for the first few years before the National Asset Fund grew sufficiently large to force down interest rates to a low level. Again, any tendency to export considerable sums of capital would have the effect of lowering the exchange rate so that the owner of wealth, presuming that he already possessed wealth in the form of cash, would find it more profitable to invest locally and to pay the tax than to buy foreign currencies.

However, let us suppose that capital was exported, what would be the result ? First of all, money can only be transferred abroad by (a) exporting gold, (b) exporting goods, and (c) by invisible exports. As regards (a) the export of privately owned gold would not affect the value of the currency, i.e. the price level, nor the production and distribution of wealth in the slightest degree, provided always that we were not in any way on the gold standard. The result might be a drop in the value of gold in foreign currencies, but the interest on the investment would arrive here in due course, if the owner remained here, in the form of imports. As regards (b) and (c), a foreign market would have to be found which, if found, would give employment in

the production of the goods or services exported. As already stated, if foreign currencies were purchased (and they can only be purchased from people who are prepared to accept sterling for them, i.e. English exporters with balances abroad or foreigners with debts to pay in England), without an equivalent increase in the balance of exports, then the value of sterling would fall in foreign currencies. Moreover, if those who exported money borrowed it against the security of their property or sold property to raise the money, then the rate of discount and interest would rise. Incidentally it is to prevent a rise in the discount rate that the Treasury has thought fit not to liberalize the application of the embargo on foreign lendings, otherwise the Government might have to pay higher interest rates for the forthcoming armament loans.

It is not difficult to understand, in view of the facts stated above, how necessary it is, in the opinion of those who derive the bulk of their income from interest, to oppose any departure from the gold standard; why *de jure* should replace the present *de facto* international stability of sterling. In other words, that each country should re-establish a mint parity and an open market for gold at those mint parities. Under the gold standard any considerable export of money, due to the fear of certain kinds of taxation, would entail an export of gold, with the consequent collapse of prices and the credit structure, or the alternatives, numbers one and two, cited below. However, this would not

apply to taxing specific forms of the national liability, such as land value and the national debt, which could be taxed out of existence under the gold standard without causing gold to be exported.

The method of counteracting any tendency to export gold to pay for a surplus balance of imports, apart from the interest due to us on our foreign investments, is explained in the following paragraph from Mr. McKenna's *Post-War Banking Policy* :

The proposition is that every Central Bank purchase and every loan by a Central Bank increases the cash resources of the other banks, and provides the basis for an expansion in the volume of credit, or, in other words, of money ; while every sale by a Central Bank or repayment of a Central Bank loan reduces bank cash and restricts the supply of money. This proposition holds true whatever the Central Bank may purchase, whether it buys or disposes of gold, bills, securities, or any other asset. From this it follows that Central Banks possess the power to regulate the supply of money irrespective of gold movements. The action of a Central Bank in thus counteracting a gold movement is commonly called neutralizing.

It must not be overlooked that whilst temporary outward movements of gold could be neutralized in this manner by open market purchases, any large and continued export of gold would so reduce the proportion of gold to deposits that one of three things would have to be done : (1) to go off gold and allow the exchange rate to become variable ; (2) to remain on gold but at a lower mint parity ; (3) to remain on gold at the original mint parity, which could only be done through the operation of

open market sales, restriction of credit and the calling in of loans. This would reduce the price level. It may be mentioned that conditions make one of these options mandatory not only when an excess of gold is exported to avoid taxation but also when the government of a country spends large sums of money which have not been raised either by taxation or by loans.

This is the curse of the gold standard which gives us a stabilized exchange rate, but a variable price level. No wonder tariffs have been introduced to help the operation of neutralizing! When the price level is reduced by deflation, unemployment, bankruptcies, broken hearts and suicides are the result. Of course the tax on capital which drove the gold out of the country would be blamed for this upheaval due to the deflation necessary to keep on the gold standard, and not the gold standard itself. The alternative to exporting capital in the form of gold is for it to take the form of goods, but the days of unlimited centrifugal expansion are gone.¹ In the nineteenth century it paid the owners of capital better to export goods to China, and take debentures against the customs tax in return, rather than to build decent houses for the English working class. With the result that alleged smuggling by Japanese or Koreans to-day may become of interest to the British Government on behalf of investors. *The Times* of May 18, 1936, in a sub-leader, says :

¹ See Jack London's *War of the Classes* in the chapter "The Question of the Maximum."

China's credit depends to a large extent on the Customs revenues, *on which a large proportion of her foreign loans are secured*,¹ and it is computed that under present conditions in North China the Central Government is being defrauded at the rate of £120,000 a week.

True autarky² or self-sufficiency lies in the centripetal development of our own country by investing our savings in our own country, in conjunction with free trade. A free foreign exchange market with a high government borrowing rate in conjunction with a low lending rate and a good annual surplus to build up the National Asset Fund, will accomplish this. Foreign investment not only robs the working class of England of most of the advantages of this capital development by taxing the imports received as interest, but makes war, to defend "our" foreign investments, an ever present menace.

So, people of England, make your choice : Extend the present system of centrifugal expansion ; the ever-growing vicious spiral. First, by extending foreign loans and investments until these become still more unprofitable, with all the risks of loss incidental thereunto ; then by making internal loans due to budgetary deficits, thereby expanding the national liability and creating more unemployment, until the bubble bursts in war or revolution,

OR

Inaugurate a system of centripetal development and reverse the movement of this vicious spiral of

¹ Italics mine.

² autarky : ἀνταρκεία, self-sufficiency, must not be confused with autarchy : ἀνταρχεία, self-government.

spurious capital value so that it will contract until it finally disappears, by :

1. Redistributing taxation so as to exempt the consumer.
2. Borrowing locally at a high rate and lending to industry at a low rate.
3. Budgeting for a surplus in order to amortize the national liability and build up a national asset.

The proportion between the amount of money saved and invested in some form of capital value and the amount of money actually spent on goods and services is mainly determined by the proportion represented in prices between the sum of interest and economic wages, i.e. unearned and earned income. The sum of interest not only forms the basis of existing capital value at the rate of discount ruling, but as the growth of the use of machinery in technical development increases, an ever larger proportion of the price is paid out (or put to reserves) as a sum of interest, and an ever smaller proportion of the price is paid out and spent as economic wages.

This fresh increase in the sum of interest again becomes the basis of fresh capital value, rising the more rapidly as the rate of discount falls. This is one of the reasons why the bank rate is always kept as low as possible so as to allow capital values to rise as high as possible ; for it is always taken for granted that the higher capital values rise the richer " we " become, whereas the reverse is true. With the growth of these capital values, helped by the

WOULD CAPITAL BE EXPORTED? 93

ever-growing vicious spiral of national debt, real wages have fallen and will continue to fall. This fall in the total disbursement of wages reduces the actual amount of money spent, so that with the growing disparity between spending in correct proportion to saving employment becomes ever more difficult to obtain.

CHAPTER XII

SOME QUESTIONS AND THEIR ANSWERS

I HAVE read your book, but there are several points I'm not very clear about. For instance, if there was no rate of interest, why should money owners invest ?

Don't worry about that. It will take some time to reduce the national liability sufficiently to bring bond interest rates to a low level. First of all, higher rates than those ruling must be paid as bond interest in order to obtain money to be lent to develop industry at low interest rates.

And then you are going to tax in the bonds and destroy them ? Do you think people are going to be so silly as to lend the government money in exchange for bonds and then allow the government to take the bonds from them ?

The government won't take the bonds from them at all. The surplus will be used in the early stages mainly for the amortization of the existing bonds, and afterwards for the amortization of the fixed capital bonds. This means that the interest paid will always be high enough to keep the bondholders

SOME QUESTIONS AND THEIR ANSWERS 95

from asking for their money back, as they will have every right to do on any quarter day ; the day the interest is due. Only they have to give three months' notice. If the interest offered were too low, there would be too much money in circulation and it would cause the price level to rise. On the other hand, if the interest were too high, the government would be obtaining too much money for loan purposes. Or else notes would be cancelled in exchange for the bonds and that would bring about deflation : the last thing we want to happen.

Yes, but how do you make out that the government would have too much money ?

There is a limit to the amount of capital development that a community can undertake at any one time. Too much capital development by using the principle of borrowing high and lending low would only do harm and withdraw labour from its job of producing consumable goods. It's all right for father to chop wood while mother is doing the cooking, but it is all wrong if the whole family is engaged in preparing for future meals and starving meanwhile.

Then you mean the government would avoid getting too much money from selling bonds ?

Yes, the idea is to use a bit of planning in solving this question of saving and spending : providing for to-morrow and providing for to-day in correct proportion from now on. People usually think of

saving and spending only in terms of money. The way individuals use money certainly determines whether saving or spending takes place; but the money itself is neither saved nor spent; it merely circulates. Saving results in more durable goods being produced, including stocks of consumable goods, whereas spending results in the consumption of the consumable goods. There is always an optimum relationship between these two things just as there must be a certain ideal proportion between liquids and solids in the diet of the individual. Too much or too little of either would be fatal to life. Unemployment shows that there is a lack of balance between saving and spending in the social organism.

But if the saver is taxed by your method, instead of the spender being taxed, say by excise taxation, it would restrict spending just the same.

Certainly not! If a wage-earner can only afford to spend 2s. for tobacco of which, say, 1s. is taxation, his consumption is limited to one-half the quantity (or quality) he could afford to buy tax-free. On the other hand, if a saver obtains 2s. per annum interest on £2 and he buys tax-free tobacco for 1s. and pays 1s. licence from the interest on his savings, he may use 1s. of his savings to increase his purchase of tobacco which the wage-earner cannot do.

Do you mean that a capitalist would borrow to spend or borrow to pay his licence?

SOME QUESTIONS AND THEIR ANSWERS 97

Either. If he spent his whole income on tax-free products and had no cash to pay his tax, he could always offer the government, and the government would have to accept, a mortgage on his property for the amount of his licence.

Then the government would have no cash in the Treasury to the degree that it accepted only promises to pay.

The government would have security against which it could borrow money on bonds at the same rate that it charged on the mortgage, and spend that. The bonds would be amortized in due course from the surplus.

Yes, I follow your arguments, but I don't see how this bond business works out.

I think it was Professor Irving Fisher who said that stabilizing the price level might be compared to driving a car on the road instead of running it into the gutter and getting stuck in the ditch on one side or the other. In other words, that both inflation and deflation had to be avoided. The same thing applies here : let the government borrow money at whatever rate is necessary until sufficient has been lent at a lower rate to absorb the bulk of the unemployed, and then the borrowing rate must be reduced at one mille per week until the supply does not exceed the demand.

Then how does the government get rid of the

bonds representing the money it has borrowed from investors ?

There are quite a lot of bonds already, but all these and those still to be issued will be redeemed in the course of time. You must remember that apart from taxation the government will have an income from the interest on its loans, and so long as the government has a surplus a certain quantity of outstanding debt will be redeemed every year.

How will the government invest its surplus when the interest rate has fallen to zero ?

When interest has fallen to zero the government will no longer budget for a large surplus. When capital goods have been produced, the owner, to avoid having to pay a licence on unmortgaged assets, will apply for a loan at zero interest. The National Asset Fund will give him the necessary credit or issue the requisite number of notes. Obviously to prevent inflation notes must be withdrawn, and will be cancelled from the surplus as required, though not necessarily as many as have been loaned. This factor is decided by the index of the price level.

Your idea of a surplus seems altogether unreasonable. Fifty per cent added to the revenue ! That would ruin industry. That is why we have been borrowing in order to avoid taxation. It is always admitted that high taxation is bad for industry. In *The Times* of February 18, 1937, the Chancellor of the Exchequer is reported to have said :

SOME QUESTIONS AND THEIR ANSWERS 99

The alternative to borrowing would be to raise during the next five years an average of £112,000,000 a year more than had been raised this year. That would cripple our resources and throw back the whole of the present remarkable industrial progress.

That was in connection with the rearmament loan.

Yes, that is a half-truth. High taxation *as we know it*, based on consumer taxes, does everything you say. But the taxation of the saver has not been tried to any great extent. But where it has been tried, as in the case of the taxation of land values, in Australia and New Zealand, capital value has fallen by an amount equal to the capital value of the tax, that is to say land fell in price by one pound for, say, every tenpence paid annually in taxation. The owner of the land paid it, and this sort of taxation didn't increase the cost of production to the consumer at all.

Why bring in land values? Are they savings?

Certainly, all investments are savings, and the capital value of the investment is based on the income. It is this income, unearned income, which I propose to tax.

Don't you think people are entitled to keep the money they save?

I am attacking interest *not* savings. The trouble is that our methods of taxation and finance generally have got us into this position: barely one-third of the capital value in existence is wealth; the

rest is watered stock, based on future unearned income.

That gets me back to my first question, if there was no rate of interest why should money owners invest ?

At long last when all capital goods are mortgaged to the government and a very few bonds outstanding, earning, say, .3 per cent, that is three milles per annum, loans would be made at zero interest on any fresh capital at $2\frac{1}{2}$ per cent p.a. for forty years—on the average the loan would be repaid by the time the capital goods were worn out—but money owners, who merely wished to save money and not invest it for a profit, would not invest as they can do to-day in gilt-edged securities yielding about 3 per cent. They would buy bonds yielding but a tenth of this as a store of value. Instead of getting £30 a year they would only get about £3 a year for £1,000 invested. If they preferred to invest abroad to get a higher interest rate it wouldn't matter, because the National Asset Fund would have sufficient funds to loan to entrepreneurs on all fresh capital goods produced locally at zero interest, from which they hoped to make a profit by risking their equity.

If there is still a chance of making a profit, then there must be interest.

Not at all. Profit is either earned, as a shopkeeper makes a profit in his own business by probably

SOME QUESTIONS AND THEIR ANSWERS 101

working harder than any of his employees, or the investment may yield high dividends because it is a very risky business. Some years ago the roller-skating craze started rinks all over the country, because 25 per cent seemed easy to obtain net on the investment, and was obtained for the first year. But these investments mostly ended in a loss after a couple of years because the capital itself could not be recovered when the craze ended. No, the pure rate of interest is quite a different thing to a profit. That is why some shares cost, say, three times as much as others, though the last dividend paid may be the same amount. For instance, let us suppose that 100 shares, with a nominal capital of £1 per share, have just paid a dividend of £9 but their market value is still only £100, then the income represents a yield of 9 per cent on the present value of the investment. Now, let us suppose that the old irredeemables, the 2½ per cent perpetual annuities, yield 3 per cent on their market price, say at £83⅓, it is obvious that an income stream consisting of a sum of interest of only £3 supplies sufficient basis to maintain the capital value at the pure rate of interest, taken as 3 per cent. Consequently the difference of £6 in the 9 per cent dividend represents earned profit. This extra £6 is not interest and produces no capital value. But if the dividend continued at 9 per cent for several years, then the shares might rise to a capital value of £200, in which case the sum of interest would have doubled and would account for £6 of the £9 dividend, leaving only £3 of it as profit.

Profit could still be earned even if a pure rate of interest ceased to exist.

Yes, I see. Would you charge this licence of yours on bond interest?

Certainly. This tax would be paid on all forms of capital value by their respective owners, subject only to the exemptions.

What exemptions would you suggest?

Probably for the first year it would be necessary to exempt all those who possess less than £5,000. But with the reduction in excise and tariff taxes the exemption could be reduced by £1,000 a year for the next four years, leaving only £1,000 exempt at the end of that time.

Then finally only people with property would pay all the taxation?

On the contrary, all taxation and interest is now paid by the producer as consumer. Taking interest instead of consumer taxes for the revenue would mean that the producer would still pay it because he produces it. However, he won't have to pay *twice*, once to the non-producer and again to the state as he does at present.

But doesn't the non-producer, as you call him, that is the capitalist, deserve interest, since he saves the money for investment?

SOME QUESTIONS AND THEIR ANSWERS 103

No. If there was no national liability, especially no land value, but on the contrary a National Asset Fund, there would be fewer borrowers, except at zero interest, because everybody would get all they produced. And as the only outlet for savings would be investments in capital goods, that is real wealth, there would be no shortage and therefore no discount rate and no interest. But as long as anybody can buy land to yield an unearned income from rent, then so long will a borrower have to pay explicit interest for loans which in turn will yield him implicit interest. He must persuade the lender not to buy land in order to get an income, and therefore he promises him a secured income as interest instead, which the borrower passes on to the consumer in prices. It is obvious that as long as an alternative to lending money exists which will yield implicit or explicit interest to an investor, a borrower must meet that competition by also offering to pay interest. This is tantamount to saying that as long as there is unpooled implicit interest there will be a discount rate and an explicit interest rate.

Suppose people hoarded their money, how would you get at it to tax it?

Hoarded money would not be liable for taxation. In fact, the more notes that were hoarded, the less interest-bearing Treasury bonds the state would possess. The withdrawal of money from circulation would tend to cause the price level index to fall,

and this would allow a drop in the bond interest rate until some people decided to change their bonds for notes. This would put the index back to parity once more. So finally the only result of hoarding money in notes, instead of investing it in bonds, would be that the hoarders would lose their interest, and the community would be that much better off for not having to pay it.

But you say you would charge the licence on bond interest.

Yes, subject to the exemptions. Suppose that the bond interest rate was 30 milles and the licence 27 milles, then the small investor who was exempt would receive 30 m. but the investor whose total wealth put him into the licence-paying class would receive only 3 m., i.e. 30 m. less 27 m. But this would not prevent him demanding cash in exchange for his bonds if at any time, subject to three months' notice, he thought that he could obtain a better return in the form of profit from an investment in capital goods. Then, again, the fact that he could get parity for his bonds would compensate in some degree for a low interest rate. Many a man prefers a low rate for his money placed on bank deposit, to buying bonds, because in the latter case he risks a fall in capital values should the rate of interest rise. With money placed on short-term deposit his original investment is guaranteed, and in the event of the interest rate rising during this period, he retains the option of reinvesting the whole at the end of the

SOME QUESTIONS AND THEIR ANSWERS 105

period at the higher rate. An investor in parity bonds gets not only a short-term but also a long-term investment, if he prefers it, and his interest automatically follows the market.

Why do you insist on three months' notice ?

Well, the bonds might be changed for cash at parity at any time without notice after the national liability had been reduced somewhat. But at first it would be necessary to put a brake on any undue tendency to create and then cause to disappear large sums of money. Even to-day, as one millionaire put it, he would rather be in a position to " swing " ten million dollars in Wall Street than to own a million of his own.

Do you think that the option of parting with bonds at parity will be appreciated. I mean, do not investors prefer the idea that they might be able to sell for more than they gave ?

There will still be lots of investments, even some bonds, which will continue to have a variable capital value. But the double advantage possessed by the investor of obtaining parity value in cash together with the ruling interest rate will be worth sacrificing perhaps one per cent. That is why low-interest-bearing bonds can be sold by the government if they are for a short term, whereas if they were offered for a long term the investor would insist on a higher rate.

Would not depositors who have money in the bank take it out and buy bonds instead ?

Not necessarily. Every service can obtain its price, and the profits made by the banks will still attract investment. This investment now takes the form of money on deposit with a guaranteed return both of capital and income, and also shareholders, funds ; though the yield on these latter may be greater, so also is the risk of the loss of capital greater. An increase in consumption will increase business for the banks enormously, both for the home and the foreign markets, especially with free trade.

Do you expect to convince people that free trade is better than protection ?

Tariff restriction, or, as you call it, protection, is the natural outcome of a fixed exchange rate, coupled with the private ownership of implicit interest, especially rental values.

But do you want our wage-earners to have their wages reduced to the level of those countries which would, if you had your way, dump their goods here ? Our wage-earners would have their wages reduced to the level of those who live on the smell of an oil rag.

I am quite prepared to admit, for the sake of avoiding further argument, that with a national liability and savings untaxed but with consumer taxes, free trade would reduce our men's wages, and

SOME QUESTIONS AND THEIR ANSWERS 107

if our competitors smelt an oil rag once a day, then ours would have to be content with smelling one once every other day. I am not suggesting that. Real free trade can only exist with a free foreign exchange rate. I mean, dissociating gold from banking just as other metals are dissociated from banking. Then the national liability will be reduced concurrently with the building up of a National Asset Fund, which means that the rental value of land will gradually become common property. Only then would I reduce tariffs by 10 per cent *after* unemployment had fallen 10 per cent and so on. This would prove that the increase in production due to freer trade didn't prejudice the increase both in wages and consumption due to the growth of the National Asset Fund causing better distribution. Foreign wages could still remain on the "smell of an oil rag" level, once we had solved our own problem of the distribution of the product (whether local or imported), without affecting our own wage level in the slightest degree. But foreigners if they were wise would follow our lead; for the exchange of goods is dependent upon *both* parties to the barter making a profit in spite of costs, including wages, transport charges, and any tariff that there may be.

Then you consider that abolishing tariffs and freeing the exchange rate would make for peace in the international sphere, as well as helping to solve our own problems?

Certainly. Take this rearmament loan for example. If I had my way I would change the cur-

rency back into national money, the old Bradburys, immediately. As things now stand a great deal of this loan will be bank money on which the taxpayer will have to pay interest, whereas if Bradburys were issued to pay for armaments a considerable quantity could be issued interest free before the price level would start to rise.

But you don't suggest it would be possible to issue £300,000,000 a year for five years without inflation developing?

Certainly not. That brings me to my second point. Then I would start an issue of variable interest bonds and increase the interest as it became necessary. This would take the notes off the market and prevent inflation.

Then that would mean that the rate of discount would rise as well, wouldn't it?

Exactly. Suppose both the interest and discount rates rose from the present rates of, say, 3 per cent to 4 per cent, then £100 of capital value based on £3 per annum would fall to £75; a loss of 25 per cent. This would represent part of the premium charged to property owners as an insurance against war.

Only part of the premium?

Yes, as the interest on this new loan would have to be found from taxation in the form of a licence

SOME QUESTIONS AND THEIR ANSWERS 109

on capital value, a further drop in capital values would result, equal to the capital value of the tax. This would make up the balance of the premium.

The total would be pretty stiff, I imagine.

Yes, but not so stiff as the loss resulting from a war and perhaps a revolution following it. But it would make a lot of property owners much more interested in trying to find the remedy for an armaments race than they are now.

Quite possibly it would, if you ever got people of responsibility to put your ideas into operation, which I very much doubt, for responsible people are people of property. As for the producers, as you call them, they would never understand what you were driving at.

No. I don't expect much enthusiasm for my ideas from the working class. Any attack on the principles of Trade Unionism, their Ark of the Covenant, would be viewed as having a Fascist origin. In fact, the reaction of the working class to the claim that any variation in the rate of discount might affect their wages may be expressed in the words of a comic song I heard on the wireless,

Ring-a-ring o' roses,
An' the Bank rate's dahn !

But I think that my ideas would interest the more educated classes ; those whose incomes from earned profits run into thousands whilst their unearned

incomes are very much less than that. This scheme would cost them much less in taxation than they pay now, though probably no attention will be paid to it until after the next war.

I have one more question. You say that public works ought to be financed free of interest. Why do you say that?

Public services to-day charge not only the cost of the service but interest upon the capital invested in the service. Although these services are called state owned, this is not so, because while they are state controlled the ownership is vested in the bondholders. In fact, some of these services are mortgaged over the eyes. For instance, the Post Office makes a profit because the buildings do not belong to the people; the capital invested in the Post Office is earmarked to earn interest for the bondholders. I am more conversant with Australian figures. For instance, in Australia a telephone can be hired for £4 10s. a year with a charge made for calls. Yet over £5 a year per telephone is payable by that department as interest on the capital earmarked to pay the bondholder. What percentage of the gross receipts, last year, do you think "London Transport" paid to its shareholders or bondholders or however it is financed?

I have no idea.

Nor have I. But I can tell you this, that in 1931 the ridiculous proportion of 51·2 per cent of the

SOME QUESTIONS AND THEIR ANSWERS 111

gross earnings of the N.S.W. railways was paid away as interest. This means that freight costing in reality 20s. was charged at over 40s. to enable interest charges to be paid. However, truck owners played their ace and undercut these freight rates charged by the state railways, and had huge lorries running all over the country. Then the State Government trumped their ace by putting on a penal tax. I think it was a penny per mile per horsepower outside a twenty-mile radius of the city. Anyway, it did the trick, and the trains carried the freight at their own figure. This is inverted Socialism leading to the servile state.

Why did the Government have such heavy interest charges ?

Because whenever the railways made a profit, into the revenue it went, to reduce taxation. But when there was a loss it was met by a loan and tacked on to capital investments.

That seems a peculiar way to finance state enterprise.

Yes, the Government auditor bucked a bit, and a few thousands were written off to save their face.

Do you think that a Labour Government would have given the people a squarer deal ?

Bless your soul ! It was a Labour Government that did it !

THE NATIONAL DEBT

NET TOTAL OF £7,797,151,000

Approximate totals of the National Debt are given as follows:—

	INTERNAL DEBT	£
Consols, etc.		313,284,000
Terminable Annuities		12,164,000
3½% Conversion Loan		739,402,000
4% Consolidated Loan		400,739,000
3½% War Loan		1,911,459,000
4% Funding Loan, 1960-90		354,021,000
3% Funding Loan, 1959-69		145,578,000
2½% Funding Loan, 1952-7		100,609,000
2½% Funding Loan, 1956-61		200,274,000
4% Victory Bonds		316,934,000
5% Conversion Loan, 1944-64		322,842,000
4½% Conversion Loan, 1940-4		365,922,000
3% Conversion Loan, 1948-53		301,838,000
2½% Conversion Loan, 1944-9		206,526,000
1% Treasury Bonds, 1939-41		100,000,000
National Savings Certificates*		389,950,000
National Savings Bonds		4,207,000
Treasury Bills		674,595,000
Ways and Means Advances		23,535,000
Total Internal Debt		6,883,879,000

EXTERNAL DEBT †

5½% Twenty-year Bonds, 1937 (\$719,508) ‡	148,000
U.S.A. Government Loan (\$4,368,000,000)	897,534,000
Loans from certain Allied Governments	134,887,000
Total External Debt	1,032,569,000
Total National Debt	7,916,448,000

Deduct:

Victory Bonds, etc., purchased by National Debt Commissioners, but not yet cancelled	119,297,000
Net Total on March 31, 1937	7,797,151,000

From "The Times"—April 21, 1937.

The sum of £66,450,000 must now be added to the above, representing the capital value of mining royalties.

* National Savings Certificates are shown at issue price, exclusive of accrued interest.

† At par of exchange. ‡ Balance unissued on March 31, 1937.

EPILOGUE

THAT these views will attract opposition from the vested interests which hold Great Britain in pawn and are thus attacked in the citadel of their privilege by an annual tax on their capital is certain ; for it means simply this, that what has hitherto been implicit interest and has sustained two-thirds of the capital values in the country will flow into the pockets of the producers. Nevertheless, in spite of Socialistic teachings to the contrary, the earned profits of the entrepreneur are not a form of exploitation, and these earned profits will increase *pari passu* with a rise in wages. The organizer of labour who takes risks earns his portion as surely as his employee, but unless the spending of the community is increased, private enterprise, as we know it, will give way to some form of Fascism or Socialism. It is for the educated entrepreneur rather than the wage-earner to appreciate the menace of the expanding national liability to the full and take the necessary measures to call a halt. It is interesting to note that when the Bank of England was first proposed as a profitable form of private enterprise the author of a pamphlet entitled *A Brief Account of the intended Bank of England*

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(written probably by William Paterson, the subsequent founder of the bank) states in the quaint language of the seventeenth century that opposition is not to be wondered at,

as being the common fate of all good and generous undertakings that are or ever were in this world ; the nature of men being bent against everything which they fancy innovation . . . that none knows, or at least ought to know, more than they, as out of a natural unbelief and suspicion of all they cannot see.

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