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A LEVY ON CAPITAL

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BY

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TO MY
REVERED TEACHER
PROFESSOR MARSHALL

PREFACE TO THE FIRST EDITION

A BOOK on a Levy on Capital is already overdue. The proposal is attracting widespread attention but is not yet fully understood. There is therefore urgent need of explanation.

My purpose in writing has been twofold. In the first place, I have collected and arranged all the necessary data for an adequate discussion of the problems involved. In the second place, I have explained and defended the proposal itself. The first part therefore deals with facts and the second with opinions. I have been scrupulously careful to keep these two objects distinct, and have never allowed my bias in favour of certain conclusions to distort my presentation of the facts.

I do not of course pretend that my "facts" and figures are incontrovertible, but at least they are honest attempts to arrive at the truth. In all estimated figures there is a margin of error. It is important to realize that this margin is greater proportionally in some cases than others. Thus the estimates of pre-war wealth and its distribution in Chapter IV are derived from the careful computation of many statisticians starting from different bases, and may be regarded as accurate within a small marginal error, say about 10 per cent. On the other hand, the estimates of changes in wealth during the war are little more than hopeful conjectures, and some of them may be as much as 50 per cent. out or even more. The resulting estimates of aggregate post-war wealth may therefore be subject to a marginal error of 15 or 20 per cent.

In forecasting the figures of the first peace Budget new uncertainties arise, and there is room for a considerable difference of opinion. My figures will be found much less optimistic than those given by Mr. Bonar Law in his Budget speech of April 22, 1918, at a time when this book is passing through the Press. I should hesitate to adhere to my own estimates in the teeth of this expert view but for the fact that on two previous occasions his figures have been belied by subsequent events—firstly, in the case of the daily expenditure of 1917-18, which proved a full million above the estimate; and secondly, in the matter of the loans to the Allies, which he originally claimed were all good and

which he has himself since had to write down by no less than 800 millions. I may mention further that the view I have taken is supported by many economic and financial writers.

The merits or demerits of a levy on capital are not, however, dependent on the precise selection of figures which form the data in the earlier parts of the book. If Mr. Law's more rosy estimates are accepted in place of those which I have given, the relief afforded to ordinary taxation by the levy will be, if anything, greater and not less than that which I have indicated.

It is rather unfortunate that the word "capital" in the expression "a levy on capital" is not used in the sense in which it is generally employed in economic textbooks. As defined here on page 58 it includes all wealth, whether income-producing or non-income-producing. For some reasons it might have been better to have used the word "wealth" instead of "capital," but I have preferred to accept the phrase which has already become current and to define it afresh in accordance with the meaning which is attached to it in this connection.

An essential feature of the proposal is the payment of the levy, at the option of the taxpayer, in scrip or other of the title-deeds of wealth instead of in money. If this were not to be the case the strictures of many financiers who have attacked the proposal as "impossible" would be justified. An analogy has been drawn in Chapter VIII between the levy imposed by the State and the procedure adopted by a company in writing down capital unrepresented by material assets; this analogy it is hoped will enable the true character of the levy to be better appreciated,

On pages 76, 77 I have attempted to answer the practical question which will be put by most readers of the book, "How will the levy affect *me* personally?" I have selected examples of men in seven different classes of society, and have compared their position if the Budget be balanced by ordinary taxation with what it will be if the debt be swept away or reduced by a levy on capital. It will be seen that with the exception of the *rentiers* and the very rich the levy will bring about a distinct improvement in their net incomes.

It is not possible in a book which modern conditions make necessarily small to discuss fully the whole of the intricate

problems to which the proposal gives rise, but I have dealt as far as space allowed with most of the objections which are commonly put forward; and in a final chapter I have given reasons why the levy should be used to free the industry and labour of the future from the deadening effect of a vast State debt.

This problem is not merely of national but of international significance, and when peace comes it will be the burning question of the hour in every belligerent country. I hope that the work I have done will prove of value not merely to those who agree with my opinions, but also to those who differ from me, in clearing the subject of misconceptions and in providing certain facts which may be accepted by both sides.

In conclusion I have to acknowledge the debt I owe to many friends for their assistance, and in particular to Mr. Edward Backhouse, Mr. William Frost, Mr. A. G. Sayers, Mr. G. B. Sansom, and my wife for kindly reading through the proofs and making many valuable suggestions.

F. W. PETHICK LAWRENCE.

April 29, 1918.

PREFACE TO THIRD EDITION

SINCE the publication of the second edition, Germany and Italy have adopted a levy on capital. In this country a Select Committee of the House of Commons sat in the spring of this year to consider a levy on increases of wealth during the war, and reported that such a levy was practicable, but would not bring in more than 500 millions. They were expressly excluded from considering the general levy on capital. In preparing this edition Chapters V, VI and XI have been rewritten, and other facts and figures throughout the book have been brought up to date. One or two minor modifications have also been introduced to meet criticisms which have seemed well founded.

F. W. P. L.

May, 1920.

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INTRODUCTION

NATIONAL finance is commonly supposed to be a dreary and intricate subject, to be handled by experts. I hold it, on the contrary, to be of fascinating interest, easily comprehensible when reduced to its ultimate elements, and essentially a matter for the consideration and decision of the ordinary man and woman. How can it be dull when it is the epitome of the national life? How can it be left to the expert when upon it depend the form of the social fabric and the interrelation of every class and section of the community?

But vital as national finance must always be to the well-being of the people of a country, it becomes imbued with exceptional importance in time of war. First the prosecution of the war itself is dependent upon it. Secondly the figures expressing the State's expenditure in terms of money assume then unprecedented proportions. Thirdly means are provided by which the resources of the country can be compared with those of the other belligerents. Lastly the total amount of national wealth and its distribution among the different classes of the nation suffer in war profound modification.

Never has there been a time in which these statements were more true than in the recent world-wide conflict. The finances of every belligerent nation have been revolutionized. Men talk in thousands of millions who before the war scarcely spoke of hundreds of millions. And now that the war is over the supreme problem for the peoples, directly and intimately affecting their daily lives, is that of dealing with the national debts.

It is not the object of this book to discuss the merits of rival methods of financing the war during its progress, though these will be explained and their effects noted. It is concerned with the post-war situation, when the new problem presents itself of making the Budget balance without

INTRODUCTION

further borrowing. How is this to be done? What changes, if any, must be made in existing taxation? In particular is a levy on capital a workable and proper method to adopt, and what will be its effect? These are the questions which I shall attempt to answer in this book.

APPENDIX

NOTE ON THE LOSS AND DETERIORATION DURING THE WAR OF ITEMS OF PRIVATE WEALTH

Investments Abroad.—Loss apart from depreciation estimated at £m 1,000. This is little more than a rough conjecture. In the earlier years of the war, before the entry of the U.S.A. as a belligerent, the British Government bought from U.S.A. a great quantity of war material and paid for it mainly by the sale of British-owned foreign securities. The war material was roughly estimated at from one to two millions a day. Allowing about 1½ millions a day for two years, a total is reached of about £m 1,000. Since America's entry into the war the exchange has been mainly met by loans. The figure, though conjectural, is generally accepted by statisticians as approximately correct.

Houses.—Deterioration estimated at £m 150. I arrive at this figure in the following way :—

The total value of all the houses of the country was estimated before the war at a little less than £m 3,000 (see p. 34). During the war there has been a deterioration of two kinds. In the first place, the normal amount spent on repairs has been very much reduced ; in the second place, there has been little new building except of munition factories and of dwellings in munition areas. If we assume that normal repairs should be about 1 per cent. of capital value per annum and that during a period of four years only ½ per cent. per annum has been spent, the deterioration on this head would work out at between £m 50 and £m 60. As to failure to build new houses, we are told that the shortage of cottages alone after the war must be over 300,000. Of these half may perhaps be assumed to represent necessary replacement, and the other half the requirements of a growing population—and therefore not to be included in loss. Allowing about £330 a cottage, the item for replacement of 150,000 cottages produces some

£ m 50. Another £ m 40 or £ m 50 may be conjectured as required for replacement of buildings other than cottages, giving for the total house deterioration about £ m 150. This takes no account of alteration in prices.

Lands, Railways, Mines, Quarries, Canals and Ships.—Total loss and deterioration estimated at £ m 150. As to land, there has been considerable deterioration on many farms owing to depletion of labour; weeds have not been cleared, fields have been starved of manure, the regular rotation of crops has not been followed. On the other hand, a good deal of new land has been ploughed up, allotments have been brought under cultivation and other improvements effected. It is not possible to say on which side the balance lies. But in any case it is probably not very large. Railways have suffered through (1) removal of engines, carriages, wagons and even in some cases rails to the seat of war, (2) the failure to repair or renew rolling stock, (3) the letting down of station buildings and the permanent way. Before the war about £ m 25 a year was spent by all the railways together on maintenance. It is probable, therefore, that the loss under all these heads is not less than £ m 50. Mines, quarries and canals have not (speaking broadly) been subjected to any special deterioration owing to the war. As to ships, the new launchings have certainly not kept pace with the losses. If the total net loss of tonnage of merchant shipping be put at 5 million tons and the pre-war figure of £20 a ton be taken, on the average, a total deterioration of £ m 100 for shipping will be arrived at. In none of these cases has change of prices been taken into account.

All other Businesses and Companies, Public and Private.—Loss and deterioration estimated at £ m 200. I arrive at this figure as follows: The assets of these include plant and machinery, stock-in-trade, stores of finished and unfinished commodities, goodwill, and, in the case of banks and some others, investments. The salient feature of war conditions has been that most concerns not directly or indirectly needed for the war have suffered immense loss. Plant and machinery has gone unrenewed and unrepaired, stores and stock have been reduced almost to vanishing point, goodwill has disappeared. With the war over the recovery in these is likely to be very slow. On the other hand, in armament firms, factories for making Army clothing, works and many other

industries there has been phenomenal prosperity; much of this, however, consists of swollen profits rather than actual increase of material capital, and now the war is over these profits will disappear and with them the goodwill of the firm will sink to pre-war dimensions. Their stores and stock-in-trade may be worth much or little according to the extent to which disarmament is carried out; the new and increased plant and machinery will only be a valuable asset in so far as it can be put to the uses of peace. Finally, in the case of the banks, investments must be balanced against their liabilities. Taking all these facts together, I suggest that a net deterioration of about £m 200 in all ought to be reckoned on account of this heading of private wealth. But the figure is frankly conjectural. It must be remembered that it is in any case only up to March 1919, and takes no account of price changes. If the date were 1920 and price changes were included the balance would be on the other side.

Personal Effects.—This includes furniture, pictures, clothing, etc., of all the classes of the community, and was reckoned at some £m 1,000 before the war. With regard to this item, it is generally assumed that the working classes who have made good wages during the war have increased their personal possessions, and that this is also the case with the furniture of the war-profiteers, but that the rest of the community has economized. Accepting this assumption as true, it may be taken as likely that the accumulation of personal effects is in the aggregate amount (not in price) about the same as before the war.

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