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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

**N**ATIONAL 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.

# A LEVY ON CAPITAL

## CHAPTER I

### SPENDING ON THE WAR

**T**HIS country, it is stated, spent on the war over 8,000 millions of pounds. These figures are so vast as to be quite meaningless taken by themselves. No financier, however prodigious his brain capacity, could visualize 8,000 million gold sovereigns piled up in a heap; and even if he were able to do so it would not help him in the least to understand the problems which the spending of this immense sum has called into being.

Again, the rate of expenditure of this country on the war alone during the year 1918 was over 7 million pounds a day. But before an intelligible meaning can be attached to this statement it is necessary to have some appreciation of what it is that was actually being spent. Was it really money? At first sight the answer seems undoubtedly "Yes." Taxes are paid in *money*; if not in gold or silver or notes at least by cheque which reduces a man's balance of *money* at his bank. "Lend your *money* to the Nation," said the war loan advertisements. Again, the soldier draws his pay in *money* from the Government, and the manufacturer receives a Government cheque for his supplies of munitions and pays out of it wages in *money* to his employees. Nevertheless the total available gold and silver in the country at the beginning of the war was worth less than 200<sup>1</sup> million pounds and a great deal of this is still in the country, so it cannot be out of the metallic money that 8,000 millions have been spent. Again, if notes of all kinds be included in the term "*money*" there is actually more *money* to-day in the country than there was at the beginning of the war. The real fact is that the *money* has

<sup>1</sup> See an answer by Mr. Bonar Law in the House of Commons, March 7, 1918.

only been changing hands. The real things that are spent are entirely different. Money measures them and by forming a common denominator enables them all to be added together.

A simple illustration makes all this clear. When people refer to *spending*, they always speak of spending so much *money*. A man is said to spend £1,000 in buying a house. That does not generally mean that he has so much gold or silver, or even paper money, less in his safe than he had before the purchase. It means that he has parted with a thousand pounds' *worth* of his realizable wealth (stocks or shares, freehold or leasehold estate, or credit at his bank) in order to buy the house. In the same way, if the house that he owns is burnt down, he is said to lose £1,000. That does not mean that that amount of gold or silver or paper money was destroyed in the house, but that the house itself and the furniture which was destroyed were reckoned as being *worth* £1,000.

In just the same way, when a nation is said to spend a million pounds in a war, it does not mean that it has destroyed or parted with a million pounds in gold or silver or paper, but that things have been consumed and services have been rendered which together are reckoned at a million pounds. Thus the daily outlay by this nation of 7 million pounds represents such things as the following: so many million bullets, so many thousand shells, tons of barbed wire, cannon, rifles, aeroplanes, gun carriages, gallons of petrol, coal for the ships, clothes and food for the soldiers; and again, ammunition and coal and other things sent to Italy and other countries (included in the term *money* lent to the Allies); and, finally, the time and services of officers, soldiers, sailors, etc., valued at so much a day and paid for in wages to them and in separation allowances to their dependents

Directly it is realized that it is not money itself but war material and war services which are used up in war it becomes possible to clear up a number of popular misunderstandings which arise out of loose expressions with regard to war expenditure. It is not necessary to be an economist to appreciate the fact that production cannot be anticipated, or in other words that only those things can be used which are already in existence. The services of the soldiers and the sailors must of course be rendered *at the time*. The rifles and bullets and shells and petrol, etc., which they use must have been

either imported from abroad or made in the workshops of the country *prior* to their use. No financial device can alter this simple fact or enable, for example, the soldiers to fire shells in 1918 which had yet to be made in 1919

When therefore it is said, as it often is, that part of the burden of a war can be thrown on to posterity it is important to realize in what sense this is true. It is true that posterity will have to bear the burden of making good the ravages wrought by war both on men and materials; it will have to look after the cripples, the widows and the orphans; it will have to rebuild the shattered homes and repair the broken links of industry and commerce. It is true also that one section of the community may, during a war, induce another section to produce for it war material and give in exchange its I O U, thus burdening its own posterity with repayment to the posterity of the other of this financial obligation. But it is not true that any of the actual burden of prosecuting a war, either of the services which have to be rendered or of the production of any of the materials which have to be spent during its progress, can be thrown on to posterity as a whole.

Another popular difficulty is to understand how it comes about that a country whose people as a whole possess great wealth may yet be put to sore straits to prosecute a war and to sustain its civil population. The explanation is, however, quite simple. Every one knows that a man may starve on a desert island though he has in his pocket a gold watch and a well-filled purse; for he has no means of converting either of them into food. A country at war is in a very similar position. Its wealth consists mainly of its lands, its bridges, its docks, its houses, its factories, its machinery, its railways, its rolling stock, its ships, etc., and its foreign investments. But it has no philosopher's stone to convert these directly into the things it wants—bullets, shells, rifles, guns, food, clothing and the thousand other things which are needed at home and at the front. Apart from such stock as there was of these actual articles before the war began, every one of them must be grown or manufactured during the war either in the country itself or in some other country with which trade is carried on.

This point is fundamental and lies at the base of all understanding of war finance. It will be well therefore to elaborate it. In the summer of 1914 there were in this country certain military stores calculated as sufficient for an army of 250,000

men for a campaign of moderate length and intensity. Instead of 250,000 men the British Army grew to over 5 millions, the war ran on into the fifth year, and the intensity of the shell fire exceeded by many times the pre-war estimate; it is safe to say, therefore, that the original stores were run through in the first few months. Since then the Army was entirely dependent on what the civil population at home could manufacture *at the time* and on what could be obtained from America and elsewhere. At the same time the civil population after using up its original stores had to grow and manufacture all that part of its own food and clothing and other necessaries which it could not procure by trade from other nations. For Germany the application of the proposition was still more stringent; for, owing to the blockade, nearly all trade with the outside world was cut off until the Russian peace. Thus Germans were compelled to produce almost every single article needed for the war or for the sustenance of the civil population inside their own borders and by the labour of their own people.

The principal points of this chapter may be summed up as follows: War expenditure does not really consist of money, but of materials used up and services rendered. The materials must be made before they are used, and most of them must be made during the war. Services must, of course, be rendered at the time. Each of these diverse materials and services has a value in terms of money, and these values when added together give the total war expenditure.

## CHAPTER II

### PAYING FOR THE WAR

**W**HEN the people of a country go to war they have got to pay for it. A great part of this payment is usually expressed in terms of money, but this is only for the purpose of measurement and exchange. The real payment consists of arduous days and nights on the battlefields, on the ocean, in the workshops, of hunger and thirst, of death and bereavement, of mutilation and suffering, of loss of luxuries, comforts and necessaries, of destruction and injury to capital of all kinds, of debts incurred to foreigners, and of the loss of foreign securities held within the country. It would not the less be payment if the whole people in self-forgetfulness united to pool their resources for the common weal or if the Government which is the manager of the war forced the people to work and commandeered everything which it required without giving compensation at all.

It is important to appreciate this fact. Otherwise there is a danger of making two separate mistakes. The first is to assume that the only payment made by the country is that which can be measured and expressed in terms of money, whereas an important part of the real payment is intangible and cannot be so measured or expressed.

The second mistake consists in a confusion between the payment by the people of the country for the war and the sum of money expended by the State. These two things are quite different. The one is not an exact measure of the other, not even when all the intangible part of the payment is left out of account. The confusion arises generally through the ambiguity attaching to the words "nation" and "national." Sometimes they are used of the country as a whole and of all the people in it, as when it is said that the *national* wealth consists of the rivers and docks, the factories and the mines,



the houses and the fields, etc. The expression "national" revenue is often used in this sense to mean the combined incomes of all the men, women and children in the country, which in Britain before the war was reckoned at about 2,400 million pounds. At other times the word "nation" is used to mean the fictitious entity called the State, which is controlled by the Government, and employs the soldiers and sailors and a number of civilian workers. The expression "national" revenue, used in this sense, means the money obtained by the State in taxes, etc., and spent in the upkeep of the Army and Navy, in grants to education, in the Civil Services, and in the Post Office; before the war it was in Britain about 200 millions a year.

In consequence of this ambiguity people who use such expressions as "the national expenditure on a war" or "national borrowing to pay for a war" often have a confused idea of what they really mean. I shall endeavour to avoid this difficulty by eliminating the use of the word "nation" altogether and substituting for it, in the first sense, the expression "the country as a whole" and, in the second, the word "the State." With this terminology it may be said that it is the State which prosecutes a war and finances it, but the country as a whole on which the burden of paying for it ultimately falls. At the end of a war the position of the State is summed up by saying that it has incurred so much additional debt (commonly spoken of as the "national" debt); the position of the country as a whole is that it has lost so much material and human capital, that it has depleted so much of its stocks of food, clothing, etc., that it has parted with so much of its foreign securities and that it has become so much indebted to foreigners.

In order to take part in a war the energies and resources of a people have to be diverted from the normal activities of their life into war channels. The Army, the Navy and the Flying Corps have to be manned, equipped and transported and kept supplied with munitions and food and clothing. It rests with the Government, using the various powers of the State, to bring this about. It employs for the purpose partly moral suasion, partly compulsion and partly monetary inducement. How far each of these is made use of it is worth while to consider in some detail.

For the purpose of manning the services Governments have

adopted different methods at different times. In all modern armies the State provides the common soldier with food, clothing and such shelter as the soldier obtains. Further, during the recent war in most of the countries some "separation" allowance has been made for his dependents; in this country this allowance was paid in money out of the State's funds, but in Germany it was paid out of funds raised locally. Finally, the soldier received from the State a daily sum of money—in the Continental conscript armies a few halfpence, in the British Army about 1s. 6d., in the Colonial armies several shillings. These items taken together constitute the monetary inducement offered to the soldier. But of themselves they are not sufficient to produce the enormous armies of modern times; and every State has in addition adopted other means to obtain additional soldiers. There has been in all countries a widespread appeal to patriotism and beyond this, in most of them, compulsion. The fact that these means have to be employed prove that the monetary inducement paid by the State is not an exact equivalent of the sacrifice of the individual.

The same fact may be looked at with advantage from another angle. Before the war a man was employed at a certain civilian employment. When the war came the Government took him for the service of the State as a soldier. Meanwhile his civilian services to the country as a whole ceased to be rendered. It is the value of these lost services rather than the wages paid him by the State which measures the payment by the country as a whole. For example, men have entered the ranks who before the war were architects, barristers, managing clerks, artisans and labourers. The State pays them all alike, but the services which the country has had to dispense with were of quite different values.

Sometimes, again, employers have gone on paying to their employees who have enlisted a part of their old wages in order to make good the deficiency in income to their families. The result would have been the same to all parties if the employers had paid these sums to the State as taxes, and the State had handed them over to the men. The method of payment decides whether the recognized expenditure by the State on the war shall include or exclude these items; but the effect on the country as a whole is identical.

For the purpose of equipment, Governments rely partly

on their own people and partly on foreigners. In both cases they generally pay full value for what they take. The profits of war contractors both at home and abroad are notorious, and wages in munition-making compare very favourably with wages in civil employment. So far as foreign production is concerned the payment by the State is in effect the payment by the country as a whole. So far as the home production is concerned the payment by the State is partly offset by the added prosperity of the munition-makers who themselves form a part of the country; or to put it in another way, the value of their services in civilian employment of which the country is deprived on account of the war was not reckoned at so high a figure<sup>1</sup> as the State pays for these services in the manufacture of military equipment.

For the purpose of transport of men and materials the Government has hired or bought outright a great quantity of merchant shipping, thereby reducing the amount available for transporting the luxuries, comforts and necessities of life of the civil population. Further, the Government has imposed certain restrictions in the case of such shipping as it has left. There are here three parties to consider—the State, the shipowners and the rest of the people. The State has paid a certain sum of money for its own requirements; the people have paid an enhanced price for theirs; the shipowners have made immense profits. If pure economic laws had been in operation throughout all the transactions, it might have been possible to arrive at an equation with regard to these items and from it to deduce a connection between the State expenditure and the economic measure of the loss of the country as a whole. But in view of the uneconomic conditions actually prevailing such reasoning would be entirely false, and the only conclusion that can be reached is that the loss to the country as a whole is not measured by the expenditure of the State.

With the cost of manning, equipping and transporting the forces and keeping them supplied, the expenditure of the State in days gone by came to an end. Even to-day there are only a few additional items. But the country as a whole has to pay also in many other ways. First there is the destruction of private property by the enemy (for even when the State provides an insurance scheme the insurance is not

<sup>1</sup> Allowance must of course be made for changes in the purchasing power of money.

a drain on the resources of the State but is met out of the premiums of policy-holders). Secondly there is the human destruction—death and mutilation—for which the State nowadays recognizes some obligation and pays in the form of pensions. Thirdly there is the complete dislocation of numbers of private businesses and the consequent loss of goodwill. Finally there is the whole effect of the war upon the sustenance of the civil population who in every country have had to face deprivation and, in some, dire lack of the fundamental necessities of life. Part of this "payment" by the country as a whole finds its way into the accounts of the State in various ways, notably in the British rebate on the price of bread; but a part is not represented there at all.

The points of this chapter may be summed up as follows: The true payment by a country for a war consists in the loss and suffering of its people. This is by no means correctly measured by the sum of money expended by the State. The State pays mainly for manning and equipping and sending into war its forces. The cost to the country as a whole of manning the forces is considerably greater than the sum of money expended by the State on this account; the cost to the country as a whole of the equipment and transportation is probably less than that which the State pays for these services. In addition the country suffers many other losses which are excluded altogether from the purview of the State.

## CHAPTER III

### FINDING THE MONEY

**T**HE paymaster-in-chief in a war is the State. For everything which is not given voluntarily or commandeered without compensation the State has to pay. But, like other paymasters, it has first to get the money before it pays it out; and this getting of the money in the case of the State can be done in several distinct ways.

One way is by taxation. Each individual in the country is taxed according to certain prescribed rules, and the money abstracted from his income flows into the State's Exchequer. With this money the State purchases what it requires. The principal features of this method are the following: First, the burden is adjusted between different individuals in a predetermined proportion, viz. according to the nature of the taxes imposed. Secondly, as the purchasing power of the State is increased to just the extent that the purchasing power of all the individuals taken together is reduced, there is in the main no tendency either to create unemployment on the one hand or on the other to bring about an increase of general prices<sup>1</sup> except as the result of scarcity. Thirdly, when the war is over no financial tangle is left behind to unravel.

These very real advantages are almost universally admitted, but there is a wide difference of opinion as to how large a proportion of the total war cost should be raised out of taxation. For better or worse Governments are inclined to rely less and less upon taxation for finding the money for a war. Their avowed reason is that a great part of the cost of a war must necessarily be borne by posterity, a statement which, as it is

<sup>1</sup> Of course when taxation takes the form of customs duties or excise the price of specific articles will be raised by the amount of the tax.

popularly understood, is certainly incorrect (see p. 17). On the other hand, it is undoubtedly true that the imposition of very heavy taxation would tend to make the war unpopular and depress the spirits of the population ; whereas increasing profits, high wages, full employment, which result from other methods of war finance, all tend to encouragement by keeping up the semblance of prosperity even when they are accompanied by high prices and even scarcity. Much more might be written on this interesting subject, but it would lead away from the main purpose of this book, which is the discussion of the financial position when the war is over.

Another method of finding the money is to create it by the printing press. This is so simple as to seem almost like magic. The State prints on certain bits of paper varying amounts of money and (lo and behold !) people accept these bits of paper at their face value and give in exchange for them valuable goods and services. But paper is paper still, whatever the State may imprint upon it, and the making of it into money cannot represent the creation of new wealth. What really happens in this case is that the State with the manufactured money competes as a purchaser with individuals with their earned money ; and, in consequence of the competition, prices rise and the individuals find themselves getting less for their money than they had anticipated. The result to them is therefore equivalent to a tax, but a tax not pressing heaviest on those with the greatest ability to pay, but rather in the reverse proportion, for it is the necessities of the poor that are likely to rise in price the most. The great danger of using the printing press to finance the war is that the effects of successive operations are cumulative ; the money cost of the war rises again and again and prices soar higher and higher, leaving a problem of increasing difficulty to be faced sooner or later.

Russia had up to the end of 1918 printed over 170,000 million roubles of paper money, and the price of a pair of boots has gone up from a few roubles before the war to several hundred to-day. France has printed over 25,000 million paper francs. Germany had in circulation in March 1918 about 18,000 million paper marks, and Austria 30,000 million kronen. Even Britain, which has preserved for some purposes its gold standard, has printed over 300 million pounds worth of £1 and 10s. Treasury notes. Now that the war is over it

is necessary to find some means of disposing of this flood of paper wealth.

The remaining method of finding the money is by borrowing. This method has been adopted very largely by all the belligerent Governments, with the result that enormous "national" debts are being created which remain now that the war is over. It is worth while therefore to consider the nature and effects of this policy in some detail.

When an individual borrows money, he promptly exchanges it for the things he wants—clothes and food and shelter, or perhaps plant for the extension of his business. At the same time he becomes in debt to the lender, and has each year to pay interest on it and some day to repay the principal. When a State borrows the phenomenon is more complicated, and the effects are different according to whether the source from which the State obtains the money be (1) foreigners, (2) its own ordinary citizens, (3) the banks in its own country.

1. *A Foreign Loan.*—When a State borrows from foreigners, either from a foreign State (as in the recent American Government loan to the British Government) or from individual foreigners (as in the earlier British loans taken up by American citizens), it is acting exactly like an individual borrower. It exchanges the borrowed money for goods, which it proceeds to import, and remains under an obligation to the lender which it will some time have to discharge both in interest and principal. Moreover, as the citizens of a country are ultimately responsible for their own State's obligations, it is correct to say that the country as a whole has incurred this liability. Further, if the money has been spent, not in productive capital, but in perishable munitions of war, the country as a whole has been impoverished to the exact amount of the foreign loan. If this process were repeated indefinitely, the time would come when the country as a whole became "bankrupt," because the internal resources were not sufficient to cover its external liabilities. This has happened several times in history, notably in the case of Egypt prior to Lord Cromer's administration.

2. *Internal Loans.*—When a State goes to its own citizens to borrow money it is doing something entirely different. And if those citizens find the money by working harder and increasing their output, or by going without luxuries which

they would otherwise have consumed, there is no loss of permanent wealth to the country as a whole. All that has happened is that the productive power of the country, instead of being utilized in making motor-cars and expensive food and clothes, etc., for individuals, has been employed in making gun-carriages, etc., for the State, and in providing food and clothing for the State's soldiers. However often this process is repeated, the nation—meaning thereby the country as a whole—cannot become bankrupt, because the creditors of the State (i.e. the holders of war loan) are themselves citizens, and therefore ultimately liable with other citizens for the repayment of the debt. This is not to say, however, that internal loans, even if they were all of this character, would be harmless; for, though they do not affect the total quantity of wealth in the country, they do affect the distribution of that wealth.

Moreover a great deal of the money which ordinary citizens put into the war loan is not obtained by stinting or going without luxuries. In many cases the money, if it had not been lent to the Government, would have been used for the creation of new productive capital or for repairing old capital. The country as a whole is poorer for this diversion. It is seen to-day in the shortage of good houses, in the "letting down" of railway rolling stock, and in a great many other things.

Another source from which the ordinary citizen gets the money he puts into war loans is the sale to foreigners<sup>1</sup> of investments, either foreign or domestic. An internal loan paid for in this way is in effect subscribed by foreigners, and the result to the country is the same as that of a direct foreign loan. It is estimated that something like a thousand million pounds of securities have been sold by people of this country to Americans during the war, and our country as a whole is poorer by the whole of this amount.

Finally the ordinary citizen may get the money to buy war loan by borrowing from his bank on his securities. If this is

<sup>1</sup> If the sale is not to foreigners but to fellow-citizens, the transaction must be followed up to the person who ultimately finds the money to see whether he provides it by economizing income, by sale to foreigners, or otherwise. Again, if the sale is to the Government and the Government disposes of the securities to foreigners, the effect is the same as if they were sold to foreigners direct.



merely a temporary advance, repaid later out of income or capital, it need not be taken into account. But if it be allowed to remain until after the war, then the loan to the State is to all intents and purposes subscribed by the bank, and its effect is the same as a bank loan, which forms the subject of the next paragraph.

3. *Loans from Banks.*—A great deal of the money which the Governments have used to pay for the war has been subscribed by the banks. At first sight there does not seem to be any vital difference between money lent by the banker and money lent by individuals; but in reality there is a great difference. Whereas the ordinary person actually *pays* the money and thereby permanently depletes his resources, the bank does not have to provide the money at all except temporarily. It is true that at the start it draws a cheque on its account at the Bank of England and pays it to the Government, and the Bank of England makes an entry in its books accordingly. But simultaneously the credit of the Government at the Bank of England is increased by the subscriptions of all the other banks; and against this aggregate credit the Government proceeds to draw cheques and hand them to the contractors, who pay them into their banks and draw cheques against them, and so on. Occasionally cash has to be paid out, but it is soon paid in again into one or other of the banks. Taking the banking system as a whole, therefore, there is no depletion of its resources, only a series of entries in its books. And in the long run the same is true of each individual bank.

What has really happened is that a new kind of paper money has been created consisting of cheques, having many attributes in common with paper money proper, which consists of Treasury notes or bank notes. Both notes and cheques rest ultimately on the credit of the Government and the banks; both tend to inflate prices and consequently to increase the money cost of the war and to impose a virtual tax on all private purchases (see p. 25); both are cumulative in effect, and both create a grave financial problem to be faced at the end of the war. There is, however, a striking difference between the State printing notes and borrowing money from the banks. The immediate cost to it of the former is only a trifling amount for printing and issuing. The cost of the latter is an annual sum of 5 per cent. (or whatever it may be)

paid to the banks<sup>1</sup> as interest for the money which they have "lent." This will continue until normal conditions of credit are restored.

In reviewing the points of this chapter the important fact to appreciate is that while the State finds the money to pay for the war either by taxation, paper money, or loans, the country as a whole finds it by increasing output or by reducing individual expenditure or by limiting the output of new capital and repairs of old capital, or by getting it from abroad. When the Government imposes taxes the citizen generally pays the money out of income. When the Government manufactures paper money the effect on the citizen is again mainly to reduce the effective value of his income. When the Government borrows the result is uncertain. The money may come from abroad, directly or indirectly; it may come out of what would have otherwise been spent on capital; it may come voluntarily out of income, as when men save to invest in the loan; or it may be taken out of their effective incomes, as when the money is a bank loan and prices are inflated. The question is one of fact which can only be decided by further analysis. In all cases of internal loans there is in addition a change in the internal distribution of the wealth of the country.

<sup>1</sup> It may be objected that if this statement were true the profits of the bankers ought to have risen greatly during the war. Their profits to-day are as a matter of fact considerable, and they would be higher still but for two countervailing tendencies. The first is the curtailment of ordinary businesses, the second is the loss of capital sustained by the banks owing to the fall in the price of various securities of which the banks are large holders.

## CHAPTER IV

### PRE-WAR WEALTH AND ITS DISTRIBUTION

**W**HAT is the total national wealth? The question was often asked of late because of its bearing on the power of the country to continue the war; it is being asked still more insistently now that the war is over, for to-day the problem of meeting the huge war debt has become a burning political issue intimately affecting the whole structure of post-war society.

Before attempting to answer the question accurately it is necessary to define what is meant by the phrase *national wealth*. The expression as it is used in this connection generally means all the material wealth of the country as a whole and of all the people in it. It therefore comprises (1) the public wealth of the State, (2) the local wealth of the municipalities, (3) the corporate wealth of certain societies and organizations, (4) the private wealth of some 46 millions of individuals domiciled within the country. Unfortunately, there are no complete data available from which the amount of any of these items can be accurately ascertained, so that an absolutely correct answer cannot be given. Nevertheless, it is possible to form estimates based on certain known facts, and these estimates may be accepted as fairly reliable.

1. The public wealth of the State consists of the national public lands and parks (in which may be included for this purpose the royal parks), the public buildings and offices (including the palaces, Government offices, post offices, etc.), the Government factories (such as Woolwich Arsenal), the national dockyards, harbours, etc., the ships of war, the capital and plant in the Government offices, the naval and military stores, and a great number of other things belonging to the State, including a block of shares in the Suez Canal. Sir L. Chiozza Money in his book *Riches and Poverty*, pub

## PRE-WAR WEALTH AND ITS DISTRIBUTION 31

lished in 1905, estimated this State property as worth then about 500 millions of pounds; and it had probably increased to 600 millions by the year 1914. Against this State property must be set the State debt, which, in 1914, before the war, stood at a face value of some 650 millions, or at an exchange value of about 500 millions.<sup>1</sup> Taking this charge into account, it may be said that the net property of the State in 1914 was about 100 millions.

It may here be worth while to introduce a new notation which was first proposed by Professor Marshall, and which has been found exceedingly useful where sums in millions of pounds are under discussion. The letter *m* written after the symbol £ will be employed to represent millions. Thus £ *m* 10 will mean £10,000,000; £ *m* 50 will mean £50,000,000; £ *m* 1,000 will mean £1,000,000,000, and so on. In this notation the net property of the State in 1914 was about £ *m* 100.

2. The next item to consider is the wealth of the municipalities. This consists of the local lands and parks, roads, cemeteries, municipal buildings (including schools, work-houses and asylums), sewers, bridges, municipal enterprises (gas, water, electric light, trams, etc.) and a great amount of other public property owned locally. The total value of this in 1914 may be put roughly at £ *m* 1,500<sup>2</sup> (1,500 millions of pounds). But against this must be set the aggregate municipal debt, which may be taken at £ *m* 500, leaving a net value of £ *m* 1,000.

3. The third item is the corporate wealth of various societies and organizations—churches and chapels and the endowments attaching to them, hospitals and their endowments, universities and colleges and public schools and their endowments, the trust funds of various religious, philanthropic and other institutions, City companies, clubs, mutual

<sup>1</sup> Consols being then worth about 75.

<sup>2</sup> This figure cannot be considered as an estimate but merely as a convenient conjecture. To those who are dissatisfied with it I would put this question: What is the value of a main road a hundred miles long? Its actual area valued as agricultural land may only be worth some £30,000, but the community has probably spent many times this amount in bringing it to its present condition and would lose untold wealth if it were done away with. Somewhat similar remarks apply to such public utilities as bridges, sewers, etc.

insurance companies, co-operative societies, friendly societies, trade unions, etc. The aggregate of this wealth, which will in future be referred to as "Institutional wealth," may be put roughly at £m 1,900.<sup>1</sup>

4. The remaining item is the aggregate private wealth of all the citizens of the country and of all the foreigners domiciled within the United Kingdom. It comprises an immense variety of different species of property possessed by individuals—lands, houses, factories, shops, banks, railways, ships, docks, wharfs, machinery of all kinds, stores of finished and unfinished articles, shares in national and municipal loans, property and investments abroad, personal belongings, such as clothes, jewels, motor-cars, horses, pictures and furniture. These are held sometimes in direct ownership by individuals and sometimes by public and private companies which are owned by individuals through the possession of their shares and debentures.

Of all the four items making up the total national wealth the fourth is by far the largest, and its determination is of great importance for the purpose of scientific taxation. Fortunately more definite data are available for estimating this item than for the others, and accordingly a figure can be given which is accurate within a small margin of error. The data are the published returns of income tax, super-tax and death duties; these have been handled by eminent statisticians, including Sir Robert Giffen, Sir L. Chiozza Money, Mr. F. W. Hirst, Dr. J. C. Stamp, and Sir Bernard Mallet and Mr. Strutt, so as to give approximately the total in private hands. Accepting Mallet and Strutt's method and conclusions<sup>2</sup> as

<sup>1</sup> See the *Journal of the Royal Statistical Society* for July 1915, p. 579, paragraph 3. The item as defined there includes the gas and water plants of municipalities but excludes the edifices and endowments of churches and chapels. I have accordingly added a sum of £m 400 to the figure there given.

<sup>2</sup> Their investigation will be found set out in a paper read before the Royal Statistical Society in June 1915, and published, together with a note, making an important modification, in the *Journal of the Society* for July 1915. To the figure of £m 10,776 finally reached by the authors on p. 597 of the *Journal*, I have added (1) £m 150 on account of an arithmetical error in their second table on page 576 which I have pointed out to them and which they admit; (2) £m 750 for additional personal effects, including furniture, etc., which according to their paragraph 3 on p. 576 should be added if the definition I have given of private wealth be adopted;

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substantially correct, the total of private wealth defined as above works out at about £m 12,500.

The four items may now be added together so as to give for 1914 the total wealth of the country as a whole :—

WEALTH OF THE COUNTRY IN 1914.					
Public State wealth	..	..	..	£ m 600	
Less National Debt	..	..	..	£ m 500	
					£ m 100
Municipal wealth	..	..	..	£ m 1,500	
Less Municipal Debt	..	..	..	£ m 500	
					£ m 1,000
Corporate wealth of societies (say)	..	..	..	£ m 1,900	
Private wealth of individuals	..	..	..	£ m 12,500	
					£ m 15,500

This figure of £m 15,500 is considerably below that sometimes spoken of. Thus I have seen the total put as high as £m 20,000 by persons professing to have accurate information. But £m 20,000 is without doubt an over-estimate; and though there is still a margin of uncertainty statisticians<sup>1</sup> now generally accept a figure in the neighbourhood of that which I have given as substantially correct.

No attempt has been made in this estimate to include in the wealth of the country the individual men and women who are its citizens. They have been looked upon as the owners of the wealth rather than as part of it. It is true that an adult man or woman who has been reared and educated through years of dependence is an asset to the country. But the attempt to convert this into a money figure by reckoning each adult at so many hundreds of pounds seems to me to lead to more confusion than benefit.

Returning to the figure of £m 12,500 given above for the total wealth in private hands, it is possible to proceed

(3) £m 300 for additional wealth of the poorer classes as suggested by them on p. 570; (4) £m 200 for the increase in the total between the date of their estimate and the commencement of the war; and (5) some £m 300 to cover two additional items which to a large extent escape detection in the estates duties—(a) goodwill of private businesses where it is dependent on the life of the proprietor, (b) foreign bearer bonds with regard to which some deliberate evasion is practised.

<sup>1</sup> Dr. Stamp gives £m 14,300 with a margin of £m 2,000.

a stage further and to analyse it in two distinct ways. In the first place, it may be divided up according to the nature of the things owned; in the second place, it may be divided up according to the wealth of the individuals who own it.

The first analysis depends on capitalizing the returns of the different schedules of income tax. We shall not be far wrong if we estimate that roughly £m 1,000 represented furniture and personal effects, £m 500,<sup>1</sup> individual holdings of national and municipal loans, and that the remainder was comprised of four nearly equal parts (each a little less than £m 3,000), viz. (1) investments abroad, (2) houses, (3) land, railways, ships, mines, quarries and canals, (4) all other capital, including banks and other companies, private businesses, farm capital, etc.

The second analysis is the direct outcome of the published returns of the death duties obtained by following the methods

DISTRIBUTION OF THAT PART OF PRIVATE WEALTH CORRESPONDING TO THAT DECLARED IN ESTATE DUTIES, 1913-14.

	Number of Living Persons.	Aggregate Wealth.
Millionaires .. .. .	484	£ m 655
Owners of between £100,000 and £1,000,000	13,508	£ m 2,027
"    "    £10,000    "    £100,000	180,532	£ m 3,432
"    "    £1,000    "    £10,000	859,804	£ m 2,143
"    "    £500    "    £1,000	521,708	£ m 298
"    "    £100    "    £500	1,708,212	£ m 336
Total .. .. .	3,284,248	£ m 8,891

of Mallet and Strutt in estimating the aggregate of the estates of the living from that of those who die within the

<sup>1</sup> This is less than the aggregate of the national and municipal debts, first by the amount of these loans held by institutions, secondly by that held by banks and other companies which is accounted for in the value of their property.

## PRE-WAR WEALTH AND ITS DISTRIBUTION 35

year.<sup>1</sup> Let us first account for some £m 8,891, which corresponds directly with that declared in the estates of deceased persons coming into the purview of the Inland Revenue authorities during the year 1913-14. The table on p. 34 shows its distribution.

If we add the first four rows together we find that some 1,055,000 people rich or comfortably off, each possessing over £1,000, owned between them £m 8,257 of this wealth. And if we add the first three rows together we find that some 195,000 rich people, each possessing over £10,000, owned between them £m 6,114 of this wealth.

So far we have only accounted for £m 8,891 out of £m 12,500 estimated total private wealth. How was the remaining £m 3,609 distributed? Some £m 1,950 represented "settled estates" which exclusively belonged to the comfortable and rich. Some £m 300 represented an estimate of the wealth of persons owning less than £100 each. £m 750 was for pictures, furniture and other personal effects unaccounted for in the estate duties; of this we can scarcely suppose that more than £m 500 belonged to persons possessing under £1,000 each, leaving £m 250 to be divided among the better-off. The remaining £m 600 also mostly belonged to the richer classes.

We may therefore conclude that of the total private wealth of the country, amounting to £m 12,500, about £m 11,000, or 88 per cent., was owned by some 1,055,000 people, or less than 2½ per cent. of the population. If, following Chiozza Money, we add to those people their families, reckoning five to a family including the head of it, we may divide the country into two parts, the comfortably off and the poor. The comfortably off constituted before the war about 12 per cent. of the population and owned 88 per cent. of the wealth, and the poor 88 per cent. of the population and owned 12 per cent. of the wealth.

We may, however, proceed further and say that about £m 8,000, or more than 60 per cent. of the wealth, was owned

<sup>1</sup> In extending Mallet and Strutt's methods to the different classes of rich men I have probably made the number of persons in the higher classes too high and those in the lower classes too low; but the amount of wealth owned by each class is correct. Chiozza Money's method would give smaller numbers of the rich and very rich. The unequal distribution therefore is probably still greater than my figures indicate.



by some 195,000 people, or less than a half of 1 per cent. of the population. In this rich class several of the adults in each family frequently possess wealth, so that it will be sufficient to multiply by four to obtain the total numbers of the class, and we reach the astounding result that a rich class numbering in all less than 2 per cent. owned nearly twice as much wealth as all the remaining classes numbering together 98 per cent. of the community.

APPROXIMATE DISTRIBUTION OF PRIVATE WEALTH IN 1914.

	Persons.	Persons and Families.	Per cent. of Population.	Aggregate Wealth.	Percentage of total Private Wealth.
Rich ..	195,000	800,000	2	£ m 8,000	64
Comfortable	860,000	4,300,000	10	£ m 3,000	24
Poor ..	—	41,000,000	88	£ m 1,500	12
Total ..	—	46,100,000	100	£ m 12,500	100

The points of this chapter may be summed up as follows: The total wealth of the country as a whole in the year before the war has been estimated in the most recent investigations at about £ m 15,500. This was made up of £ m 3,000 of State, Municipal and Institutional wealth, and £ m 12,500 of private wealth.

The distribution of the private wealth between the individuals of the country was extraordinarily unequal, a tiny class of 2 per cent. of the population possessing 64 per cent. of the wealth, a further class of 10 per cent. another 24 per cent., leaving to the remaining class of over 40 million people only 12 per cent. of the wealth amongst them.

## CHAPTER V

### CHANGES IN WEALTH DURING THE WAR

**T**HE war, which has profoundly altered everything in life, has made vast changes in the wealth of the country.

Firstly in aggregate amount: some capital has been destroyed, some has been allowed to go out of repair, some has passed into foreign hands, and though some new capital has been created the new is not by any means equal in amount to that lost. Secondly in character: some businesses have suffered heavily, others have increased many-fold, and much private wealth now takes the form of holdings of war loan. Thirdly in value: the change in prices has altered the measure by which wealth is estimated and made it necessary to consider depreciation as distinct from deterioration. Fourthly in distribution: some men have lost a great part of their wealth, others have become suddenly rich and the State has become a debtor to an unprecedented extent to foreigners and to its own citizens.

In the previous chapter the total pre-war wealth of the country as a whole was divided into that of (1) the State, (2) Municipalities, (3) Institutions, (4) Private Individuals. With regard to the aggregate wealth of Municipalities and Institutions, there is no reason for supposing that any considerable change has taken place owing to the war. I shall therefore assume that the post-war figures for these items remain the same as those for the year 1914.

With regard to the other items the case is very different. On November 11, 1918, the date of the armistice, the gross debt of the State amounted to no less than £ m 7,200 (face value), and though hostilities then ceased, expenditure continued to exceed receipts, bringing the debt up to some £ m 7,800 (face value) by the end of March, 1920. The exchange value of the debt is not quite so great as the face value owing to some of the stock being below par. It may

be taken roughly at £ m 7,000 on March 31, 1920, which has to be compared with the figure of £ m 500 at which it was computed before the war (see p. 31), so that there was an increase of no less than £ m 6,500.

On the other hand, the State lent great sums of money to the Allies and Dominions during the war amounting to nearly £ m 2,000 in all, of which some £ m 120 were still owing from the Dominions and £ m 1,730 from the Allies, including Russia, at the end of March 1920. Any contribution which may actually be obtained by way of reparation from Germany constitutes another item to set against the gross debt. Opinions differ as to how much all these items are likely to be worth; but taking into account the unsatisfactory financial state of nearly the whole of Europe, I regard an estimate of £ m 400 as an optimistic forecast for the whole of them together. A further credit item consists of such stores of food, clothing, and other articles as the Government have for sale. It was stated by Mr. Austen Chamberlain in his Budget speech of April 19, 1920, that the sale of these during 1920-21 was expected to realize about £ m 300, and that there would remain at the end of the year stores worth a further £ m 300 for sale, making £ m 600 in all. Adding this £ m 600 to the £ m 400 estimated value of the loans to Allies and Dominions, etc., a total of £ m 1,000 is obtained, which deducted from £ m 7,000 gives £ m 6,000 for the exchange value of the net debt on March 31, 1920.

Against this debt the State possesses certain property which it is likely to retain, consisting of (1) the national lands, docks, harbours, etc., and the Suez Canal shares, the aggregate value of which may be placed at about their pre-war figure; (2) its warships, for which it may be assumed that the new launchings will about have made good the losses; (3) arsenals and State-owned parts of munition factories and plant, Government buildings, etc., of which there has been a great increase; (4) a vast mass of naval and military stores, including food, clothing, and munitions, whose value must be very much higher than that of the pre-war amount. The aggregate of these items may be roughly estimated at £ m 1,000. Accordingly the value of the State property falls short of the value of the net debt by no less a sum than £ m 5,000 (£ m 6,000 less £ m 1,000). This does not mean that the State has to be regarded as bankrupt, for a State is

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simply an artificial entity representing its citizens in their corporate capacity, and the State's debts are in reality secured on the total wealth of all its citizens, which even to-day far exceed the State's liability.

It remains to consider how great is the value of the private wealth of the individuals of the country now the war is over. It will be remembered (see p. 33) that an estimate of £ m 12,500 was obtained for it at the date immediately preceding the war. Of this amount about £ m 1,000 represented furniture and other personal effects, £ m 500 holdings of national and municipal debt, and the remainder, in about four equal parts (each a little less than £ m 3,000); (1) investments abroad, (2) houses, (3) land, railways, ships, mines, quarries, and canals, (4) all other capital, including banks and other public and private companies, private businesses, and farm capital.

Of the investments abroad a large part have been sold during the war either at the direct promptings of the Government or for other reasons. With regard to the wealth actually existing inside the country prior to the war, the salient fact to appreciate is that the bulk of it is still in existence now that the war is over. Some ships have been sunk, some houses have been demolished by bombs, some railway rolling stock, motors, and horses have been reduced; but for the most part the lands, houses, factories, railways, mines, machinery, pictures, furniture, etc., and a considerable number of the ships still remain. All capital, however, tends to deteriorate unless it is constantly kept up by repairs and replacement, and during the war the money spent in both these ways has been much less than normal. Accordingly, though the capital is for the most part still here, it is not in as good condition as before the war.

For reasons which I set out in the Appendix, I make the following estimate of the actual loss and deterioration of these various items up to March 31, 1919: Investments abroad, £ m 1,000; houses, £ m 150; land, railways, ships, mines, quarries, £ m 150; other companies, businesses, etc., £ m 200; furniture and other personal effects, no change; giving a total reduction in these items of £ m 1,500, without taking into account the question of any change in prices.

In the financial year ending March 31, 1920, there was a considerable increase in the actual amount of privately

owned wealth. Many new ships were built, companies and other businesses acquired large quantities of stores from the Government, and in addition reconstituted their fixed capital, and added to it. It is impossible to arrive at any exact figure, but it is probable that taken together these increases roughly made good in the aggregate the internal loss and deterioration during the war, reducing the total loss to the £m 1,000 loss of foreign investments.

In addition to these changes there has now to be considered the effect of the change in prices; for it is the money value of the total post-war wealth in private hands which has to be ascertained. It must be clear to every one that this must be to a large extent a matter of speculation. During the war, owing mostly to the shortage of supply, the prices of commodities have risen 50, 100, and in some cases 200 or 300 per cent. Some kinds of capital in great demand, such, for instance, as shipping, have also risen in the same or even greater proportion. Land has appreciated considerably in price value. On the other hand, great quantities of capital returning a fixed rate of income, such as consols, colonial stock, municipal stock, railway debentures mortgages, and many other shares in public and private concerns have depreciated 25 per cent. or more as a result of causes which are financial and not economic.<sup>1</sup> After the armistice there was at first a slight fall in the general level of the price of commodities, and the price of capital swung a little back from the extremes reached during the war, but afterwards prices of commodities rose to new record levels and the changes in the exchange value of capital became still further exaggerated. Taking all kinds of capital together and striking a balance it is probable that on March 31, 1920, it had appreciated in price apart from actual loss and deterioration, by an amount which may be placed roughly at about £m 2,000. This includes the increased value of such things as houses, furniture, clothing, and also the additions to bank balances. [From the point of view of the banks the increased liability to customers is set off by the increased holding of Government paper.] It is, of course, a highly speculative figure, and though sufficiently accurate for the

<sup>1</sup> Namely, the flotation of the vast State loans at high rates of interest, and consequently the depreciation of all stocks yielding a lower rate.

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present purpose must undoubtedly be received with great caution.

There is still one item remaining of individual wealth ; it is that of holdings of national and municipal debt in private hands. The effect of the war has been that while there has been little or no change in municipal debt, the national debt will have increased by no less than £ m 6,500 (exchange value) by March 31, 1920. Of this sum about £ m 1,500 is held abroad ; and if we allow another £ m 1,000 for a further portion held by banks and companies which will have been accounted for as part of their general assets included in group (3) of private wealth, there remain some £ m 4,000 which represents the increase in the private holding of national debt.

We are now in a position to estimate the value of post-war private wealth as follows :—

POST-WAR PRIVATE WEALTH.				
Pre-war private wealth	..	..	..	£ m 12,500
Deduct loss of investments abroad	..	..	..	£ m 1,000
				£ m 11,500
Add increased value of wealth due to increased prices	..	..	..	£ m 2,000
Add increase in individual holdings of national debt	..	..	..	£ m 4,000
				£ m 17,500 <sup>1</sup>

Thus during the war and the year and a half subsequent there has been by March 31, 1920, a nominal increase of some £ m 5,000 in the aggregate of private wealth, viz. from £ m 12,500 to £ m 17,500. This fact will come as a surprise to many people. They must remember, however, that the individuals possessing this wealth are, in common with all the citizens of the country, liable for the State's debts amounting in gross to some £ m 7,000 (exchange value).

<sup>1</sup> The figure is of course only an estimate. It may be compared with that of Dr. Stamp who, writing in the *Economic Journal* for September 1918, and estimating in advance for March 1919, put the post-war figure on this date at £ m 16,000. It is too early to attempt to check it by such tests as the returns for Estate Duty or Super-tax.

The total post-war wealth of the country as a whole on March 31, 1919, will work out at £m 15,400, made up as follows :—

POST-WAR WEALTH OF THE COUNTRY AS A WHOLE.				
State property	..	..	..	£m 1,000
Municipal wealth	..	..	..	£m 1,000
Institutional wealth	..	..	..	£m 1,900
Private wealth	..	..	..	£m 17,500
				<hr/>
				£m 21,400
Less State's net debt	..	..	..	£m 6,000
				<hr/>
				£m 15,400

This figure of £m 15,400 for the estimated total post-war wealth of the country as a whole is approximately the same as the £m 15,500 total estimated pre-war wealth. But this does not mean that the country in 1920 is not really poorer as a result of the war. The actual loss in things, if all turned into money at pre-war prices, would probably run into two or three thousand millions and at still more in post-war prices, or about one-sixth of the total wealth of the country before the war. But owing to the net rise in prices of the whole wealth this real loss is not represented in the figures which only show a nominal reduction of £m 100. Further, if the years of the war had been years of peace several hundreds of millions would have been added to the accumulated wealth. Finally, the country is poorer also by the loss of its sons who have perished on the battlefield and by the injury to many who have returned home; these losses cannot be included here in any figure, but they must not be forgotten.

Confining attention to the purely material loss, it is important to realize that as was pointed out in Chapters II and III, a great part of the war cost was met at the time out of income by the people of the country who worked harder and stinted themselves. It is likely that in addition to what was paid out of capital, some £m 4,000 was forthcoming out of income, or about one-quarter of the aggregate income of the country as a whole during the four and a half years of war.

This amount of war cost, paid by the country as a whole out of income, must not be confused with the amount raised by the State in war taxation, which up to March 31, 1919,

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was about £m 1,700.<sup>1</sup> Much of the income which individuals did not spend on themselves they lent, instead of giving to the State. Consequently many whose incomes were swollen by war profits added enormously to their accumulated wealth. We saw in Chapter IV that the rich and comfortable classes, comprising about 12 per cent. of the people, owned before the war some 88 per cent. of the wealth; and of these the rich class, consisting of only 2 per cent. of the whole population, owned more than 60 per cent. of the wealth. It is these well-to-do classes which have been able through their wealth to lend the greatest proportion of the money borrowed by the State. The total amount invested in war savings certificates and post-office bonds is about £m 400. If the whole of this be credited to the poorer classes, and a further £m 300 be added for the investments in war loan of small investors, the total is only £m 700. The whole of the remainder of the loan, funded and unfunded, is in the hands of the comfortable and richer classes, who also retain their possession of such of the pre-war wealth as still exists.<sup>2</sup> Therefore, now that the war is over, these well-to-do classes not merely possess, as they did before, the greater part of the existing wealth of the country, but also through their holdings in war loan they have a lien upon an immense part of the wealth produced in the future.

The general effect of the war upon the national wealth may therefore be summed up as follows. The country as a whole had lost by March 31, 1919, a part—perhaps a sixth—of its pre-war accumulation. By March 1920, some of this had been recovered. Moreover, the general change in the level of prices obscured the loss that remained and made the total value in terms of money of the country's wealth at that date not very different from what it was before the war. There has also been a great change in distribution. The State's net debt was no less than £m 6,000 (exchange value), and against this its property to be retained was only worth

<sup>1</sup> This figure is the excess of the revenue for the four and two-third years of war and demobilization over the previous peace revenue.

<sup>2</sup> The poorer classes may have increased their wealth in personal effects, but on the other hand it is the small capitalists of this class who have suffered most from loss of their little businesses owing to conscription.



about £ *m* 1,000. Of the people of the country the great bulk will remain as before without accumulated wealth. Some who had possessions have lost a great part of them ; others have made immense fortunes. The aggregate increase in the nominal value of individual wealth is no less than £ *m* 5,000. Speaking broadly, the distribution of wealth is still more unequal now the war is over than it was when it began, for the small number of rich men still retain most of what they had before and in addition have added the right to participate, because of their holdings of war loan (bought largely out of profits on war contracts), in a great part of the wealth which future generations will create.

## CHAPTER VI

### THE NORMAL POST-WAR BUDGET

**T**AXATION increased enormously during the war. The income tax was quintupled, customs and super-tax were raised again and again, and new imposts on excess profits and on entertainments were instituted. This taxation was borne without much grumbling by the bulk of the population, who realized that if there was to be a war it had to be paid for. There was, moreover, a belief current that the increases were to be regarded as temporary, and that when the war was over considerable reductions would be able to be effected.

This view was apparently shared by the Chancellor of the Exchequer himself. In his Budget speech of April 22, 1918, Mr. Bonar Law, starting from the assumption that the war would end some time during that year, claimed that the taxes then in force, exclusive of the excess profits duty, would suffice to balance the Budget and to provide a sinking fund in the "normal" post-war year. This confident optimism was strenuously combated in the first edition of this book (published in June 1918), where I gave reasons for supposing that the post-war deficit would be at least £ m 125, and would be very much higher unless the most rigid economy of expenditure were enforced, including the return of the Army and Navy to their pre-war dimensions. The actual facts have abundantly justified this criticism.

In the Budget of 1919-20 Mr. Austen Chamberlain, who had by that time taken Mr. Bonar Law's place as Chancellor of the Exchequer, found it necessary to increase the death duties and to raise the taxes on beer and spirits. Even so, he only succeeded in meeting the actual expenditure of

1919-20 by borrowing between £ m 300 and £ m 400 and by "sales of furniture"—that is to say, by disposing of the war stores—to the amount of some £ m 594, £ m 260 of which went into the Exchequer and £ m 334 went direct into the spending departments in reduction of the expenditure (see Mr. Chamberlain's statement in the House of Commons, May 11, 1920). Nevertheless, with the additional taxation he then imposed, which he estimated would bring in about £ m 60 in a full year, and with a further £ m 50 to be derived from retaining a small excess profits duty or its equivalent, he also expressed himself confident that the Budget would balance in the "normal" year. He even got out a balance-sheet of such a year in which he showed revenue and expenditure balancing at £ m 808, after due allowance had been made for a sinking fund.

Into this false sense of stability, created by these prophecies, the Budget of 1920-21 fell as a bombshell. Not only did Mr. Chamberlain find it necessary to retain the excess profits duty, he actually increased it from 40 per cent. to 60 per cent. At the same time he increased the existing taxes on beer, spirits, wines, and cigars, raised the postal and telegraph rates, and added a new tax on Corporation profits. By means of this taxation and of an estimated £ m 300 derived from further "sales of furniture," he succeeded in balancing the Budget for 1920-21, and even showing an estimated surplus of £ m 235 for reduction of debt.

The colossal change from pre-war to post-war figures will be seen by a comparison of the revenue and expenditure for 1913-14 and 1920-21, set out in round figures of millions of pounds:

## REVENUE.

	1913-14.	1920-21 (estimate).
Customs and Excise ..	£ m 76	£ m 350
Income and super-tax ..	£ m 47	£ m 385
Various .. ..	£ m 77	£ m 160
Excess profits and corporation tax .. ..	—	£ m 225
Sales of war stores ..	—	£ m 300
	<hr/>	<hr/>
	£ m 200	£ m 1,420

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### EXPENDITURE.

	1913-14.	1920-21.
Army, Navy, and Air ..	£ m 78	£ m 230
Civil Service .. ..	£ m 54	£ m 500
Various .. .. .	£ m 46	£ m 110
Debt Interest .. ..	£ m 16	£ m 345
	£ m 194	£ m 1,185
Debt Reduction .. ..	£ m 6	£ m 235
	£ m 200	£ m 1,420

It will be seen that revenue and expenditure increased more than sevenfold !

The figures for the year 1920-21 are not, however, to be regarded as the figures for the normal year, as on both sides of the account there are items which will disappear and other items which will take their place. Taking the revenue first, the principal disappearing item is the proceeds from sales of war stores amounting to £ m 300. On the other hand, the taxation newly imposed in 1920 should bring in an additional £ m 120 in a full year. Taking both these into account, the revenue in the normal year should be £ m 1,240 on the basis of the existing taxation, including estimated receipts of £ m 310 from the 60 per cent. excess profits duty and £ m 35 from the 1s. corporation tax.

The prospects of changes in expenditure are much less certain. On May 4, 1920, Mr. Chamberlain stated in reply to a question that £ m 315 of the expenditure for 1920-21 was extraordinary and temporary. If this were all to be deducted, it would reduce the expenditure of the normal year to about £ m 870, and give a surplus for debt reduction of £ m 370 ; but it is highly improbable that the expenditure will fall to anything like this extent. First, a reduction of £ m 95 is assumed in the fighting forces, reducing them from £ m 230 to £ m 135 ; this is not likely to happen if the present foreign policy is maintained. Secondly, the housing grant of £ m 13 is treated as extraordinary, whereas for many years to come it is likely to be increased far beyond this figure. Thirdly, it may be taken as certain that the money required for pensions, education, and for sundry reforms will be increased. Fourthly, there is the bread subsidy of £ m 45,

the removal of which for some years to come is uncertain. Fifthly, there is the varying rate of interest on the floating debt. Finally, there are some £ m 45 due to America and other foreign Governments annually in interest on debt owed to them, which are not included in the 1920-21 expenditure and which are not likely to be met by the few millions of interest which may be paid by the countries owing us money. On the other hand, there will be a saving of a few millions of interest owing to a few hundreds of millions of debt being paid off in 1919-20 and 1920-21.

Estimating for the future is rather hazardous, as nearly all the items are subject to decisions of policy, but I should regard an expenditure of not more than £ m 170 above his estimate for the normal year (£ m 60 for the fighting forces, £ m 25 for houses, £ m 60 for general, and £ m 25 for foreign interest) as a sanguine forecast, and an increase of £ m 350 as by no means out of the question. Taking the lowest figure, the surplus would be reduced to £ m 200, which would suffice to pay off the debt in about 25 years; taking the highest, it would be reduced to £ m 20, which would provide a wholly inadequate sinking fund and would require some 200 years to redeem the debt.

It is probable that Mr. Chamberlain himself was not unmoved by the consideration of some such supplementary expenditure, for though he did well to set before the spending departments the full reductions proposed, he indicated clearly his intention of retaining the profits taxes or of finding some other taxation bringing in an equivalent revenue (£ m 345) after 1920-21, and presumably into the "normal" year. It will be seen, therefore, that in 1920 he had decided that it would be necessary in the interests of sound finance to retain taxation to the extent of no less than £ m 360 (£ m 295 additional profits taxes and £ m 65 other taxation) above his own estimate of 1919, and £ m 470 above Mr. Bonar Law's rosy forecast of 1918! These increases are additional to the expansion of revenue from taxation previously in force.

Whether, even so, he made a sufficient allowance for sinking fund depends partly on the general policy of the Government and partly on the course of prices; and prices themselves are likely to be adversely affected by the severe taxation on profits. Accepting about a mean value of supplementary

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expenditure at, say, £ m 250, the following figures would be obtained :

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Customs and Excise..	£ m 355	Army, Navy, and Air	£ m 135
Income and super-tax	£ m 370	Civil Service ..	£ m 290
Excess profits..	.. £ m 310	Various .. ..	£ m 100
Corporation duty ..	£ m 35	Interest on debt ..	£ m 345
Various .. ..	£ m 175	Supplementary (say)	£ m 250
	£ m 1,245		£ m 1,120

This gives a surplus of £ m 125, which, applied to debt reduction, would enable it to be paid off in 30 or 40 years.

One further comment upon this method of handling the Budget needs to be made. Admittedly, Mr. Chamberlain has provided no satisfactory remedy for the floating debt and other short-time Government obligations. These consist of money lent to the Government by persons, many of whom do not regard their loans as permanent investments, but expect to be repaid after a few months and to use the money then for other purposes. The need of the Chancellor to meet these obligations as they become due by fresh borrowing which has to enter into competition with industrial and municipal issues of capital and with the national housing bonds, has resulted in the steady increase of the rate of interest he has had to pay to secure money.

Putting these further problems on one side for the present, the fact remains that, according to Mr. Chamberlain's view in 1920, profits taxes (either on excess profits or on profits generally) of some £ m 345 are a necessary permanent part of the taxation of the country unless some satisfactory equivalent can be found. There is, I imagine, no one (not even the Chancellor of the Exchequer himself) who will deny that these profits taxes, of whichever variety, are unscientific and unsatisfactory. All taxes on industry are vicious in principle. Where, owing to foreign competition, they cannot be passed on to the consumer, they are an unfair handicap on the industry of the country in which they are imposed. Where, owing to the absence of foreign competition, they can be passed on to the consumer, they cause a rise in prices. It is probable that this will be the principal effect in this

country, with the result that expenditure in terms of money will be everywhere increased, including the expenditure of the Government. Even if (contrary to my view) the profits taxes are to be regarded as taxes on wealth rather than on industry, they are unsound because they fall on rich and poor investors equally, differentiate unfairly against industrial investments, and in particular penalize home investments. It is of supreme importance, therefore, to the prosperity of the country that they be got rid of as soon as possible, and that other means be taken of putting the finances of the country on a sound basis.

The principal question to be decided is whether these means shall take the form of annual taxation or whether some still more drastic action shall be adopted to meet the situation. Customs and excise have been subjected to so many increases in recent years that it is doubtful whether they would bear any further additional taxation. Postal rates are not likely to be raised beyond the point of covering the post office expenditure. Even if increases were imposed in these items, it is doubtful whether they would help to solve the problem, for they would have the effect of raising the cost of living, and ultimately increasing the cost of all the services paid for by the Government by public expenditure. Death duties were scaled up by Mr. Chamberlain in 1919, and it is feared that any considerable further increase would defeat its own object by causing the rich to dispose of their property during their life. There remain the income tax and super-tax, which work out on the 1920-21 basis at about 3s. 4d. in the £ on a man and wife with an earned income of £1,000, at about 7s. on an investment income of £5,000, and at 11s. 1d. on an income of £50,000. If the whole of the profits taxes were transferred to these the increase would (if they were raised proportionately) be about 50 or 60 per cent. This would be very severe, but it is difficult to see how any other equivalent substitute for the profits taxes can be found out of annual taxation.

The conclusion reached in the chapter is that now peace has come the burden of national finance is much more serious than most people were led to suppose during the war. Mr. Bonar Law's rosy forecast of the normal post-war Budget has been completely belied; and the logic of events has forced his successor to impose additional burdens calculated to

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bring in no less than £ m 470 for the normal year beyond what Mr. Bonar Law estimated would be necessary. This £ m 470 includes a continuation of the excess profits duty and the corporation tax, which as taxes on industry instead of on wealth are vicious in principle and will either cause further inflation or deal a direct blow at the industry of the country. No practicable substitute for these profits taxes has been found in annual taxation. Finally, the problem of the floating debt remains unsolved.



## CHAPTER VII

### REPUDIATION

**T**HE difficulty of balancing the Budget after the war by normal taxation compels the Chancellor of the Exchequer to consider extraordinary sources of relief. If it were possible to expunge the whole of the war debt, or a considerable part of it, the problem remaining to be solved would be reduced to comparatively simple dimensions. Is there any way by which this can be done?

To this question a certain school of people are prepared with a direct answer. They propose that the State should repudiate the debt. They suggest, that is to say, that by a stroke of the pen the Government should cancel its obligation incurred to lenders of money during the war, whether they be foreigners or citizens, rich or poor. Morals apart, this seems at first sight a simple solution. It is not until it is examined carefully that the appalling complications and ruinous consequences arising out of such a policy become manifest.

The first and outstanding objection to the proposal is that it would constitute a gross breach of faith. The State, under the governance of the *de facto* Government of the day, has in full publicity and with the concurrence of the great majority of the people, made a contract with certain persons whereby for value received it acknowledges its future indebtedness. No Government inheriting from that which made the original contract can strike out the State's indebtedness without a breach of faith. The result would be to shatter all confidence in the stability of the State. It would be recognized that any new obligation would also be voidable by a subsequent Government, if not by that which made it; and accordingly no one, foreigner or citizen,

would voluntarily advance money or perform any other service for the State except either for value simultaneously received, or if credit were given at all, at speculative rates of interest.

Internationally considered, repudiation would arouse the utmost indignation among foreign holders of the loan, whether Governments or individuals; and they would probably organize a scheme for recouping themselves out of the holdings of property in their country possessed by British investors. Apart from the loss occasioned by such reprisals, repudiation would foment an international hostility which would make all foreign relations difficult, and which would germinate wars and preparations for wars likely to cost far more than the money repudiated.

Internally, the State's breach of faith would lead to breaches of faith on the part of individuals. Force of example would suggest to many men that they should do what the State had done. Others would be ruined by the State's default, and would be unable to meet their own obligations. Among those who would be broken in this way would be the great banks; and either the State would have to step in once more and sustain them, or the whole fabric of business credit would be shattered and the business world brought to a standstill.

These theoretical considerations are supported by the practical experience of those States, mostly in North and South America, which in times past have adopted repudiation as a policy only to find in the end that they lost more than they gained by the experiment. Where they suffered loss, a great country like ours, dependent on world-wide commerce and complicated by its intricate system of business methods, could not fail to escape disaster.

To most people these objections will appear so overwhelming as to render further discussion unnecessary. But as a matter of fact they will not convince a small but by no means unintelligent section of the community who start from different premises. The argument of this section is somewhat as follows: "The people of the country were not consulted as to the flotation of the loan, which was the work of the capitalist Government in power at the time; therefore they will not be forsworn if a Government really representing them refuses to acknowledge the obligations incurred by its

predecessor. The men who subscribe to loans in this and other countries are parties to the prolongation of the war; they subscribed with their eyes open, knowing that the world's finances were in danger of ruin owing to the war, and they got high rates of interest in consequence. They cannot complain if the peoples of the world, having wrested the power from their Governments, refuse to recognize their ill-gotten gains.

"As to international complications, it is to be hoped that similar measures will be taken simultaneously in other countries, and in that case it will not matter to the peoples in harmony with one another if the financiers in the various countries are enraged. But if this does not happen then the Socialist State must be prepared to defend itself against the Capitalist Governments of foreign Powers who, repudiation or no repudiation, are certain to be leagued against it.

"As to the internal collapse of banks and business credit, this is of no consequence. Working capital will remain, and the destruction of capitalist methods will only make it more available for the common service of the people of the country."

These are pure Bolshevnik doctrines and are entirely repugnant to most people in this country. But they are not illogical if taken as a whole, and are at present being subjected to a severe test of practicability in Russia. It would be quite absurd to attempt to controvert them by any arguments which did not go at least as deep down to the base of things as they do themselves; and this book is no place for such a discussion. But it is possible to point out that, even starting from Bolshevnik premises, repudiation, taken by itself and not as part of a total social and financial revolution, is an entirely illogical and unjust proposal. There can be no logical defence for hamstringing the whole business system of the country while leaving it still in existence as the means by which production is carried on. There can be no justice in taking away the whole of one man's wealth because at the call of the Government he lent his money to the State, while leaving to another man the full possession of all that he has made in the production of munitions or otherwise because he invested it elsewhere.

Repudiation as a means of balancing the Budget is there-

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fore in any case to be rejected. From the normal standpoint of the ordinary man it is to be condemned because it would destroy the whole fabric of business life. From the unusual standpoint of the Bolshevik it would be unjust and illogical unless it were accompanied by other still more revolutionary proposals.

## CHAPTER VIII

### PRINCIPLES OF A LEVY ON CAPITAL

**T**HE gravity of the task confronting the Chancellor of the Exchequer after the war has now been set out. Somehow or other he must balance the Budget. To do so by annual taxation he must either retain over £ m 300 of profits taxes, which are vicious because they are taxes on industry, or he must raise the income tax and super-tax by about 50 per cent. To repudiate the debt would be a national disaster. To resort to further borrowing is unthinkable. Is there any other method by which the problem can be solved ?

Let us first understand quite clearly what the problem actually is. The ordinary man if he be asked to define it will probably say that it consists in the fact that the nation has lost a great deal of money in the war and got into debt, and that therefore it will have to work much harder to get back to its old position. How far is this statement correct ?

It is quite true that the nation (meaning thereby the country as a whole and all the people in it) will be poorer owing to the war. It will have lost on the battlefield many of the flower of the race who had been nurtured and educated in the hope that they would become useful citizens of the country. It will have lost man-power in the persons of the disabled, the nerve-wracked and the diseased. It will have lost material wealth by the destruction and depreciation of its ships and its capital inside the country. It will have consumed without replacement much of its stores of food and clothing. It will have parted with many of its foreign investments and incurred some foreign debts. On all these accounts the country as a whole will be poorer in consequence

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of the war. It is true, therefore, that now that the war is over the people of the country will have to work harder and save more if they would bring the total wealth of the country back to what it was in pre-war days.

But though all this is true, it does not really express the problem which confronts the Chancellor of the Exchequer. His main problem consists in the fact that the nation (meaning thereby the artificial entity known as the State) has incurred a gross debt whose exchange value was about £ m 7,000 on March 31, 1920. This debt will somehow have to be met, either by the continued payment of interest or by the repayment of capital. But of this £ m 7,000 only about £ m 1,500 is held by foreigners and foreign governments, and against this the State is a creditor to the extent of £ m 120 of the Dominions, and has still owing to it (on paper) £ m 1,750 by the Allies and contributions for reparation by Germany. The whole of the remainder of the State's debt is held inside the country by individuals and by banks and by other companies and institutions, and forms part of the property of these persons and bodies.

The essential problem that faces the Chancellor of the Exchequer is not therefore one of production, but of distribution. He finds, in fact, that owing to the war and the years that have followed, a certain number of people, mostly belonging to a small rich class, have become richer, and the total measure of increase in private wealth is no less than £ m 5,000 (from £ m 12,500 to £ m 17,500). At the same time the State has become poorer, and the exchange value of the net debt amounts to some £ m 6,000. A further problem which confronts him is the immediate pressing necessity of finding means of getting rid of the floating debt. Is there any legitimate method by which he can set off the wealth of individuals against the indebtedness of the State?

Consider what is the ultimate basis of the State. The State is an artificial entity with no existence separate from the individuals who in their corporate capacity compose it. Except for its own property there is no security for its liabilities other than the persons and property of its citizens and those domiciled within its borders; and whatever method the Chancellor of the Exchequer adopts in order to reduce its indebtedness it is from these people that he must obtain the means to do so. In all cases of taxation it is for him

to decide, subject to the approval of Parliament, in what proportion the burden shall fall on different sections of the community. Thus when he exacts customs and excise he takes toll only from those who are in the habit of consuming the dutiable articles. When he taxes incomes over a certain figure, he is passing over all those whose incomes fall below this amount. When he imposes death duties he only taxes those who benefit under wills. *In the same way it is open to him to draw a part of his resources from all those possessed of accumulated wealth by making a general levy on capital.*

It is important to understand at the outset the meaning attached to the word "capital" in this expression. It is used in antithesis to the word "income" and *not* in antithesis to what may be called *static* wealth. That is to say, it includes all those things which can be subject to individual and corporate ownership, whether they be income-producing, such as lands, factories, ships, railways and investments, or are merely personal, such as furniture, jewellery, pleasure horses, motor-cars and clothing. But it does not include the capitalized value of earned income.

A levy on capital is not usually resorted to to obtain ordinary revenue because for this purpose it possesses two cardinal defects. In the first place, it is exceedingly harassing to owners of capital to be called upon annually or at frequent intervals either to part with some of their capital or to find the equivalent out of income. If it were adopted, therefore, as a regular part of the scheme of taxation, it would operate to discourage men and women from saving at all and incline them to spend their money at once as they made it. This would be to the disadvantage of the community, and accordingly other forms of direct taxation, such as the income tax, are much to be preferred.

The other objection to the imposition of a levy on capital for the purpose of raising part of the ordinary revenue is that the levy would have to be paid in money, for it is money<sup>1</sup> which the State usually wants. The normal outgoings of the State are expended on the wages of soldiers and sailors and on the *personnel* of the Civil Service, on purchases of munitions and ships, on payment of the interest on the debt,

<sup>1</sup> Instead of "money" it would be perhaps more correct to say "consumable commodities or the power to purchase them"; for this purpose the title-deeds of capital are of no use except to sell.

on the upkeep of the schools and the salaries of the teachers, on pensions for the aged and provision for the injured ; and for these it needs money. When a capitalist is called upon to find ready money he must either take the amount out of his profits or he must sell part of his capital ; the result, therefore, of the imposition of a general levy on capital in ordinary circumstances would be that large numbers of capitalists would be wanting to sell, and few, if any, would be willing to buy, and confusion of all kinds would result. The difficulty would, in fact, be similar to that which confronts the country as a whole during a war when it finds that the possession of great quantities of material wealth does not make it easy to prosecute the war, for there are no ready means by which the lands and houses and factories and harbours and pictures and furniture, etc., can be converted into cannon and shells and khaki clothing and other requirements of the troops.

A levy on capital is therefore a very undesirable form of impost for the purpose of ordinary revenue. But if the Chancellor of the Exchequer decides to adopt it now that the war is over for a certain specific purpose, viz. in order to expunge the whole or a part of the National Debt, it will be found that the objections cited above do not apply. In the first place, the levy will be imposed once for all ; and though it will undoubtedly be harassing on this occasion, it will operate to relieve capital in future from the perpetual inroads of the income tax, just as having one tooth out frees the possessor from the uncertain miseries of toothache. There is therefore no reason to suppose that it will tend to limit saving. *In the second place, the levy need not be paid in money but at the option of the taxpayer in various forms of capital.* The reason for this essential difference is that the State does not require the levy for paying current expenses but in order to free itself from the incubus of a debt, and for this purpose the acquisition of capital is equally serviceable.

The procedure may be compared with that of a company which has incurred certain capital expenditure without adding thereby to its material assets. In such a case the company after an application to the Court proceeds to write off the part of its capital to which no assets correspond. It does not of course repudiate such specific advances as



were contributed for the particular objects which have not materialized, but reduces *pro rata* the whole of the nominal value of the scrip in the hands of its shareholders.

On whom will the levy be made? Will it fall on companies and businesses like the excess profits duty, or on individuals like the super-tax? We have seen (Chapter IV) that the total wealth of the country as a whole falls under four heads: (1) National wealth, (2) Municipal wealth, (3) Institutional wealth, and (4) Private wealth. So far as the first two groups are concerned it is presumed that no levy will be made. So far as the third group is concerned every item composing it will have to be separately considered when the time comes. It will probably be decided that some items shall go scot free, just as at present they are free from income tax; others, for the same reasons which are held to justify the payment of a tax on their incomes, will be called on to contribute some share of the levy on their capital. But it is Group (4) on which the bulk of the burden will undoubtedly fall. So far as the whole of this group is concerned the levy will be imposed on individuals direct after the present manner of super-tax or death duties, and not on the companies and businesses after the manner of the excess profits duty. No levy will be made, for instance, on a railway company as such; but the various individual holders of its shares and debentures will be called upon to pay according to the value of their total holding of this and other wealth.

The next question is, How great must the levy be in order to wipe out any given part of the war debt? In Chapter V estimates were formed of the value of the wealth of the community after the war on the supposition that hostilities come to an end in August 1918; and it was found that the figure of £ m 1,900 might be taken to represent the total of Institutional wealth and the figure of £ m 17,500 the total of private wealth. If we assume that the whole of the Private wealth be amenable to the tax and half the Institutional wealth, a flat rate of 6 per cent. would bring in about £ m 1,100, and a flat rate of 11 per cent. would bring in about £ m 2,000, while it would take 33 per cent. to cancel the whole £ m 6,000 net liabilities of the State.

It is not at all likely, however, that the levy on private wealth will be made at a flat rate. Most of the direct tax-

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ation which has been imposed in recent years has been graduated in such a way that those whose wealth is greatest pay a sum not merely larger in itself but larger in proportion to their wealth. Estate duties, super-tax, income-tax abatements are all cases in point; and it may be regarded as certain that some method of graduation will also be adopted in the case of a levy on capital.

Another kind of differentiation might also be made by taking into account the date of origin of the wealth. Wealth acquired during the years of war might be taxed at a higher rate than wealth possessed before the war or that acquired afterwards. In the extreme case only wealth acquired during the war might be taxed at all. Such a levy on war-time wealth had the support of Mr. Chamberlain, and a Select Committee of the House of Commons has reported on it as practicable, while expressing no views as to its desirability. But it would require to carry out two assessments of wealth both in past time, and would only bring in about £ m 400 or £ m 500, of which not more than a small part would be available for clearing off the floating debt. It cannot of itself, therefore, be regarded as a solution of the problems, but only as a slight alleviation of them, and the Cabinet definitely rejected it in June 1920.

The conclusions reached in this chapter may be summed up as follows: The main problem of the normal Budget is a problem of distribution; the State is poorer, but the total wealth in private hands is nominally greater. In reality all the individuals of the State as citizens are liable conjointly for the State's debts. By dividing up this liability between them in graduated proportion to their holdings of wealth the Chancellor of the Exchequer can take a step towards clearing up the tangle of post-war finance. He will at the same time be able to balance the Budget without the special taxes on industry, and he will get rid of the floating debt. If thought desirable, the capital levy can be differentiated (as in Italy) so as to apply at a higher rate on wealth acquired during the war; but the proposal to confine it to such wealth would cut down the yield of the levy to £ m 400 or £ m 500, which would not adequately meet any of the existing evils.

## CHAPTER IX

### METHOD OF PAYMENT

**T**HE taxes at present in force have to be paid in money. The State insists upon this in all cases except that of the death duties, which may be paid in landed property or in Victory bonds. But it is of the essence of the new levy on capital, proposed for the purpose of reducing the National Debt, that the taxpayer shall have the option of paying his share in certain forms of capital, and that these shall not be immediately put on the market by the State. This proposal constitutes, therefore, a complete financial innovation, and needs to be very carefully considered.

To what forms of capital shall the option be extended? It is obviously to the interest and convenience of the taxpayer that it shall cover as wide a range as possible. On the other hand, it would prove highly embarrassing to the State to have poured into its lap a miscellaneous assortment of title-deeds, mortgages, shares, debentures, partnerships, jewellery, pictures, and other personal effects. The choice will therefore have to be narrowed down to those forms of capital which the State can easily handle, while at the same time it is kept wide enough to allow every owner of property to discharge his obligation with reasonable facility.

The suitable forms of capital divide themselves naturally into three groups. Group I consists of those which the State is desirous of obtaining and for certain reasons keeping. Group II consists of those which the State is willing to hold for the sake of the income derived from them. Group III consists of various forms of security which the State is prepared to accept temporarily pending ultimate payment in other ways. The precise demarcation between these groups

will depend on the general policy pursued by the Government in national affairs.

Vast changes in the conduct of industry have taken place during the war; the railways have been directly controlled by the State, to a lesser extent the mines and the shipping have been subject to State direction, the State has taken a hand in insurance, and it has made national demands upon the banks. This interference with private enterprise has by no means given universal satisfaction, and now that the war is over there is a strong demand in certain quarters for a return to the complete freedom of pre-war conditions. On the other hand, the war has demonstrated the monopolistic character of all these public services, and there will be great numbers of people who will insist upon retention by the State of some form of control. These people will argue that State control in time of peace, when the Government is subject to public criticism, is likely to prove a totally different matter from control in war-time, when the Government is autocratic and almost absolute. Which of these views is likely to prevail it is not possible to say; but in any case those controlling the policy of the nation may not be averse to acquiring, on behalf of the State, such interests in these public services as will give to the Government a certain voice in the direction of these services in the future. If later the Government decide on complete State ownership, the part already in its possession will constitute an instalment, and the remaining interest can be acquired by purchase.

Another question of policy concerns the future of armament firms. There is a widespread feeling that the sinister international alliances between armament-makers are inimical to the peace of Europe, and that a move should be made in the direction of their acquisition by the State. There is also the important question of land nationalization, but this is too complicated to be dealt with piece-meal, except in special cases as provided below (p. 64).

Group I will therefore consist of the following items: (a) Consols, war loan, Exchequer bonds, bills and certificates, and other forms of national obligation; (b) reputable foreign and colonial securities; (c) (contingent upon national policy) shares, debentures and other interests in British railways, mines, ships, banks, insurance companies, and armament

firms. All these, in so far as the taxpayer elects to pay the levy in them, will be taken over at current market value, or at some price stated in the Bill imposing the levy. Consols and other State obligations will be cancelled on receipt; foreign and colonial obligations will be retained and at a convenient time exchanged for foreign holdings of war loan. In so far, therefore, as the levy is paid in these items the capital amount of the National Debt will be reduced. On the other hand, shares and debentures in such British enterprises as the State proposes to control will be held as part of the permanent property of the State, and in so far as the levy is paid in them the national debt will not be reduced in amount, but will be transmuted from a war debt into a debt on reproductive public works, the income from which will be available to meet the interest on the debt.

Group II will consist of the following: (a) All trustee<sup>1</sup> securities not included in Group I, (b) such further stocks, shares, debentures, and bonds as the State may hold without trouble or fear of loss; (c) such interests in land as the State will be able to manage economically either itself or by delegation to local bodies; (d) such interests in special great public or private companies or other businesses as the State may feel justified in holding. The principal items in this group will be scheduled in the Bill, but some latitude will no doubt be given to the Chancellor of the Exchequer to make special arrangements as to (c) and (d).<sup>2</sup> The acquisition of items in the whole of this group will not be regarded necessarily as a permanent addition to the property of the State; their immediate purpose will be to provide an income to set against the interest to be paid on the war debt. Ultimately it may be decided to keep some of them permanently (thereby in effect transferring them to Group I). Others will eventually be sold to pay off foreign and internal debt,

<sup>1</sup> By law trustees are authorized to invest trust funds in British Government and Colonial Funds, Municipal debt, British railway debentures and certain other reputable stocks. These are known for short as "trustee securities."

<sup>2</sup> Thus a great landowner might propose to pay his levy by handing over a great tract of territory for an experiment in land nationalization, or a great soap manufacturer might wish to create a permanent mortgage in favour of the State on the whole of his property. Such proposals the Chancellor of the Exchequer ought to be in a position to entertain if he were of opinion that they would not involve an improper strain on his department.

or to purchase permanent property for the State; but it is of the essence of the proposal by which they are accepted as payment of the levy that the State shall not for a considerable time put them upon the market.

Before proceeding to discuss the composition of Group III it will be well to consider how far provision has already been made for the payment of the levy and what will be the effect of such payment. Most very rich men have a considerable part of their wealth in one or other of the forms indicated in Groups I and II; it will be possible, therefore, for them to meet their share of the levy by handing over a part of this direct to the State. Such payment will not reduce at all the total capital of the country as a whole; it will be simply a transference of ownership of the title-deeds of capital. Moreover, in the main it will not involve any encumbrance on working capital, because the items enumerated are for the most part already fluid, such as shares and debentures, which pass from one owner to another without affecting the conduct of the industry they represent.

As the levy will be steeply graduated according to the value of the individual property, the payment by these very rich men will constitute the bulk of the levy. The remainder will mostly be paid at the lower rates by men of small or moderate means, whose whole wealth consists of their capital in their own business, or of a holding in land; there may also be a few wealthy men who, for special reasons, have locked up all or most of their capital in forms other than those of Groups I and II. It is obviously not desirable that the State should take over, with a view to holding, a miscellaneous assortment of fractions of the property which these people possess. It will be obliged, therefore, to insist that payment shall ultimately be made by them either in money or in one or other of the forms included in Groups I and II.

Many of these people will find the money immediately, either by selling their property or by effecting some kind of private mortgage on it. Others will be either unable or unwilling to take either of these courses, and will wish to pay their share of the levy out of forthcoming profits. For them the State will have to make special provision by allowing them to pay by instalments; and when these instalments run on for more than a limited time (say three years)

it will insist upon the receipt of some collateral security, which will generally take the form of a State charge upon some of their property. These State charges, which will be interest-bearing and redeemable at any time at the option of the taxpayer, will constitute the items of Group III.

Persons who elect to pay in this way will undoubtedly suffer some embarrassment for several years to come on account of the imposition of the levy; but there will be no question of crippling their business, for they will in effect pay the levy out of income.<sup>1</sup> Moreover, the burden will not be greater than they would have to bear if the Chancellor of the Exchequer adopted any other scheme of taxation in order to balance his Budget. A very high profits tax, for instance, would hit them at least as hard, and in some ways would be more objectionable. With a capital levy they will at least know exactly where they are, and any specially good year will enable them to clear off the encumbrance (see Chapters XI and XII).

The principal points in the present chapter may be summed up as follows: The imposition of a levy on capital to reduce the war debt involves a financial innovation, namely, the acceptance by the State of certain forms of capital in lieu of money payment. Such forms of capital may be grouped under three heads: (I) National Debt, foreign securities and such interests in British enterprises as the State intends in future to control; (II) other stocks and shares and interests in land, etc., which the State will hold temporarily for the sake of the income derived from them; (III) State charges on other forms of wealth to be ultimately redeemed. So far as payment is made in the items of Groups I and II it will not involve any encumbrance on industry; so far as it takes the form covered by Group III it will not involve greater embarrassment than necessarily arises under any scheme for meeting the vast financial entanglement created by the war.

[Since this chapter was written the authorities of the Inland Revenue, giving evidence before the Select Committee on War Wealth, have outlined a scheme for the payment of such a levy precisely similar to that suggested here for the general levy on capital.]

<sup>1</sup> I suggest 30 annual instalments each 6½ per cent. of the levy imposed. In Italy it is 20 instalments of 8 per cent.

## CHAPTER X

### GRADUATION AND ASSESSMENT

**M**OST direct taxation in this country is graduated to-day so as to fall more heavily in proportion on the wealthy. This was not always so; in fact, originally the reverse was the case; the old "poll" tax fell on each "head" of the population, and the poor man had to pay an amount not much less than that paid by his rich neighbour. This injustice was strongly resented, and when a direct tax was imposed in the Napoleonic wars it took the form of an income tax falling upon persons *in proportion* to their incomes. From the outset there were "abatements," and these have been extended during the century in which the tax has been in force, till at the present time the income tax is in effect graduated so that the people with large and moderate incomes pay *more in proportion* than those with small. Other examples of graduation are the estate duties and the super-tax.

It may be taken for granted, therefore, that if a levy be imposed on the capital in private hands after the war it will not be at a flat rate, but will be graded so that the larger the amount of property an individual possesses the more he will have to pay in proportion. In order that this may be so the assessment will have to be made direct on individuals in some such manner as is at present the case with the super-tax and estate duties. Every person in possession of property over a certain sum (say £1,000 in all) will be called upon to make a written statement giving particulars as to the items and value of his property. This statement will then be sent in to the Revenue authorities, who will have to check it and make the assessment.

In addition to this levy on Private wealth some forms of what I have called Institutional wealth will no doubt



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also be called upon for a contribution. The assessment in this case will be direct on the respective institutions, and the rate will probably not vary with the amounts of the wealth, but may very likely be different for different kinds of institutions, some being exempt altogether.

In grading the levy on Private wealth care will have to be taken to avoid the defects existing in present taxation. It will have to be easy to understand, fair as between different classes and so regulated as to provide continuous and not abrupt graduation. The income tax<sup>1</sup> laws err in all these respects, and no one would seriously contemplate applying their complicated system of abatements, allowances and varying rates to the problem of a levy on capital. The estate duties are very much more nearly what is required. They are based on the following table:—

ESTATE DUTIES, 1918-19.<sup>1</sup>

Where total property exceeds	£100 at	1 per cent. on the whole
"	500 at 2	" "
"	1,000 at 3	" "
"	5,000 at 4	" "
"	10,000 at 5	" "
"	20,000 at 6	" "
"	40,000 at 7	" "
"	60,000 at 8	" "
"	80,000 at 9	" "
"	100,000 at 10	" "
"	150,000 at 11	" "
"	200,000 at 12	" "
"	250,000 at 13	" "
"	300,000 at 14	" "
"	350,000 at 15	" "
"	400,000 at 16	" "
"	500,000 at 17	" "
"	600,000 at 18	" "
"	800,000 at 19	" "
"	1,000,000 at 20	" "

These are simple and substantially fair; but the abruptness in the graduation results in certain quite indefensible jumps in the amount claimed by the Revenue. An example will make this clear: An estate of £9,975 pays at

<sup>1</sup> Since the above was written the income tax, super-tax, and estate duties have all been revised in the Budgets of 1919 and 1920.

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the rate of 4 per cent., or £399 in all; an estate of £10,020 pays at the rate of 5 per cent., or £501 in all; so that after the payment of duty the former estate is actually larger than the latter by over £50. Similar jumps occur at each point of the scale at which the rate changes. The consequence of these jumps is that when the estate of a deceased person comes very near to the dividing line the beneficiary and his lawyers make every effort to get the total value placed below the line, while the Revenue officials are equally concerned to make the total come above it. A great deal of time is wasted, and a considerable amount of revenue is no doubt lost to the Exchequer.

The super-tax rates avoid this defect, for though they rise abruptly, the increased rate does not apply to the whole income but only to that part of it which is above a certain figure. This is shown in the following table of rates for the year of 1918-19:—

### SUPER-TAX, 1918-19.

(Imposed on persons whose total incomes exceed £2,500.)

First £2,000	..	..	..	..	..	..	Free
							s. d.
For every £ of the income between	£2,000 and	£2,500	and	£2,500	and	£3,000	1 0
"	"	"	"	£3,000	and	£4,000	2 0
"	"	"	"	£4,000	and	£5,000	2 6
"	"	"	"	£5,000	and	£6,000	3 0
"	"	"	"	£6,000	and	£7,000	3 6
"	"	"	"	£7,000	and	£8,000	3 6
"	"	"	"	£8,000	and	£9,000	4 0
"	"	"	"	£9,000	and	£10,000	4 0
"	"	"	"	£10,000			4 6

The man with an income of £4,960 pays a total super-tax of £282 10s. (nothing on the first £2,000; £25 on the £500 between £2,000 and £2,500; £37 10s. on the £500 between £2,500 and £3,000; £100 on the next £1,000; £120 on the remaining £960), and similarly a man with £5,020 pays a total super-tax of £290 10s., an increase of only £8 in tax, so that there is no jump in the taxation paid. The effect of the super-tax rates is, in fact, to make a continuous graduation on the whole income from £2,000 upwards, but the graduation becomes very slight for the incomes of the very wealthy.

The most scientific scheme at present in operation is that in Australia, where income tax is paid according to the following algebraical formula, in which even the rates of taxation move continuously, and there are no jumps of any kind whatever :—

$R = (3 + a I)$  pence. Here  $R$  is the average rate of tax in pence per pound sterling.

$I$  = the taxable income in pounds sterling; and  $a$  is a constant depending on the character of the income.

Such a scale would probably be regarded as too complicated in this country, and the plain man would want to have the rate of his payment more straightforwardly put before him.

It will not be desirable to place the limit of exemption from the levy as low as for estate duties. To do so would be to add very much to the trouble and cost of collection; and the net proceeds from such small capitals would be out of proportion to the vexation caused to the holders. I therefore suggest that it should be made £1,000. Further, there will have to be certain abatements in the case of the old and other persons unable to work, whose sole income derived from a small capital falls below the income tax limit.

In Chapter V I estimated that the total wealth in private hands at the end of March 1919 was about £m 17,500. In selecting a scheme of graduation whereby this privately held wealth may yield a sum in reduction of the debt, it is first necessary to decide the amount to be raised. I compute that about £m 1,050 would be obtained by a levy based on the following scale with the abatements suggested above :—

Part of capital below	£1,000	.. ..	Free
.. between	£1,000 and	£2,000	3 per cent.
.. ..	£2,000 and	£5,000	4 ..
.. ..	£5,000 and	£10,000	5 ..
.. ..	£10,000 and	£20,000	6 ..
.. ..	£20,000 and	£50,000	7 ..
.. ..	£50,000 and	£100,000	8 ..
.. ..	£100,000 and	£200,000	9 ..
.. ..	£200,000 and	£500,000	10 ..
.. ..	£500,000 and	£1,000,000	11 ..

and so on,

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The graduation in this case is continuous, and proceeds at a steady rate of progression. A man with a capital of £2,000 would contribute £30 (nothing on the first £1,000 and £30 on the second £1,000), so that he would in fact pay on the whole of the capital at the rate of  $1\frac{1}{2}$  per cent. Similarly, a man with capital of £10,000 would contribute £400 (nothing on the first £1,000, £30 on the next £1,000, £120 on the next £3,000, £250 on the next £5,000), or at the actual rate of 4 per cent. on the whole. A man with £100,000 would contribute £7,100, or about 7 per cent., and one with a million would pay £101,100, or at about 10 per cent.

At the same time that this levy is being made on the wealth in private hands, the Institutional wealth will also be called upon for a contribution which may be expected to bring in about £m 50, based on the assumption that half of it is taxable, and that an average rate of 5 per cent. is imposed on that.

A total levy of £m 1,100, enormous though it be, will not, unfortunately, go very far in expunging the debt, and still heavier rates will therefore have to be contemplated. £m 2,100 could be obtained from private wealth if the rates given in the foregoing table were multiplied by two throughout. But when such immense sums are concerned a still more minute subdivision in the scale of graduation would probably be preferred, such, for instance, as is indicated by the following:—

Part of capital below	£1,000 .. ..	Free
" between	£1,000 and £1,500	5 per cent.
" "	£1,500 and £2,000	6 "
" "	£2,000 and £3,000	7 "
" "	£3,000 and £5,000	8 "
" "	£5,000 and £7,500	9 "
" "	£7,500 and £10,000	10 "
" "	£10,000 and £15,000	11 "
" "	£15,000 and £20,000	12 "
" "	£20,000 and £30,000	13 "
" "	£30,000 and £50,000	14 "
" "	£50,000 and £75,000	15 "
" "	£75,000 and £100,000	16 "

and so on at increasing rates.

To this levy a man with £2,000 would contribute £55, or about  $2\frac{1}{2}$  per cent. on his whole capital; a man with £10,000

would pay £760, or about  $7\frac{1}{2}$  per cent. on the whole; with £100,000 £13,760, or about  $13\frac{3}{4}$  per cent.; and on a million £197,760, or about  $19\frac{3}{4}$  per cent. This levy would bring in about £ m 1,920, or with an increased contribution from Institutional wealth about £ m 2,000.

From this it will be seen that to sweep away the whole net debt of £ m 6,000 would require a levy in which the rates in the last table were multiplied by three throughout. On such a levy £2,000 would be taxed at 8 per cent., £10,000 at 23 per cent., £100,000 at 41 per cent., and a million at 59 per cent. At the same time the taxable half of Institutional wealth would be paying at an average rate of about 25 per cent.

It will be seen in the next chapter to what extent the burden of meeting this levy would be offset by reduction in other taxation.

## CHAPTER XI

### RESULTS OF THE LEVY

**T**HE imposition of a levy on capital will have many direct and many indirect effects.

The main object of the levy is to make it possible to balance the Budget by doing away with the war debt in whole or in part. In so far as the levy is paid in money, in war loan (or other State obligations), or in foreign securities which can be immediately sold, the outstanding amount of the debt will be directly reduced ; in so far as it is paid in railway shares or in other forms of property, which the State intends to retain, it will transmute the debt from a war debt into a debt on reproductive public enterprise ; in so far as it is paid in other ways, it will provide an annual income which will go to reduce the interest on the remaining part of the debt. If the levy is large enough, the whole annual charges on the debt can be done away with in this way ; if the levy is only large enough to provide a part of this sum, the debt charges will be only proportionately reduced.

The imposition of the levy will give the State a direct financial interest in certain national public services. The number and extent of these will be determined by public policy ; they will very likely include railways, mines, banks, insurance companies, ships and armament works. The interest thus acquired by the State in these concerns will be partial only, and can either be extended afterwards, by purchase, to complete State ownership, or bought out so as to restore full private possession.

In so far as the levy is paid in war loan itself, or other Government obligations which will be cancelled on receipt its effect will be to bring about *deflation*, because it will be reversing the process described in Chapter III, by which *inflation* has been produced. In so far as the levy is paid

in money, saved out of income, and this money is used by the State to cancel debt, deflation will also occur. Some deflation will also arise when the levy is paid in other existing shares, stocks, etc., for when these are no longer in private hands credit cannot be built up on them. On the other hand, in so far as new instruments of credit, such as mortgages, are created for the purpose of paying the levy deflation will not result, and there may even be in some cases additional inflation. But the net effect of the levy will undoubtedly be to lower the prices of commodities and make living cheaper. On the other hand, the prices of securities will, contrary to public belief, be raised rather than lowered, just as during the war they have fallen, while the prices of commodities have increased.

In any event the effectiveness of the levy for redeeming the debt is not impaired by a change in general price level, whereas the alternative method of paying off interest and sinking fund out of income over a number of years compels the State to meet in a period of falling prices a liability incurred during rising prices.

The levy will have the supreme merit for the Chancellor of the Exchequer of getting rid of the floating debt, for it may be taken as certain that a sufficient part of it will be paid in a form enabling this to be done.

The levy will not change the aggregate wealth of the country as a whole, though the consequent change in prices may bring about a small change in the measure of the wealth. It will, however, radically alter its distribution. It will so increase the wealth of the State as to make the assets greater than or more nearly equal to its liabilities; it will, at the same time, reduce the wealth in the hands of private individuals, particularly in those of the very wealthy classes. This reduction in the wealth of private individuals will reduce the amount subsequently obtained by the State by given rates of taxation. This applies to the estate duties, the super-tax and the income tax on unearned incomes, which, as they are graduated, will be reduced more than in proportion to the reduction in wealth. On the other hand, earned<sup>2</sup> incomes will in general remain unaffected, and

<sup>2</sup> Including incomes obtained by exertion at present classed as unearned because they are above a certain figure.

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consequently the yield of the tax on these will not be lowered, nor should customs, excise, postal and telegraph receipts, and other miscellaneous items be seriously reduced.

In order to test the effect on the State revenue let us in the first instance take the case in which it is proposed to wipe out the whole of the net debt of £ m 6,000 by a levy equivalent to a flat rate of 33 per cent., at the same time doing away with the profits taxes and corporation tax. This would probably reduce the yield of estates duty by about 45 per cent.—i.e. by £ m 20—but the yield of the aggregate income tax (earned and unearned) and super-tax will remain about the same because the reduction due to the levy will be found to be just about counterbalanced by the increase due to the omission of the profits taxes and corporation tax. The Budget figures are taken from the normal Budget on p. 49, except that the miscellaneous supplement has been cut down from £ m 250 to £ m 180 (in consequence of the fact that several items such as extra floating debt charges, interest on the foreign loan, etc., have disappeared, as well as the probability of increased prices). As the debt will not all be actually paid off, some figure will appear for this on the expenditure side, but as this will be exactly balanced by a corresponding amount for interest on profits where the levy has been paid in "kind" other than Government stock, and as the amount of this part is uncertain it has been left out from both sides of the account. The round figures<sup>1</sup> will therefore be as follows:—

### THE BUDGET AFTER THE LEVY.

<i>Receipts.</i>	<i>Expenditure.</i>
Customs and Excise.. £ m 355	Army, Navy and Air £ m 135
Income tax and super-tax .. .. £ m 370	Civil Service.. .. £ m 290
Various (including death duties .. £ m 155	Various .. .. £ m 100
£ m 880	Supplementary (say) £ m 180
	£ m 705

<sup>1</sup> I have made no allowance for the effect of the debt redemption in deflating the currency. This will probably be considerable, but it will affect both sides of the Budget, with a net advantage to the revenue.



This leaves a surplus of £ m 175 available for reduction in taxation. It may be used to abolish the taxation on food, which would absorb about £ m 50, and to cut down the normal rate of income tax from 6s. to 4s., and all the other rates of income tax and super-tax in the same proportion.

I propose now to show the effect of the levy on eight typical persons of different classes of the community. I have assumed that without a levy the income tax and super-tax remain as at present, and that there is a general profits tax of 5s. 6d. and a corporation tax of 1s., but that if a levy be imposed the income and super-taxes are reduced by one-third and that the profits taxes and corporation taxes are swept away.

A. *Workman with total wealth £100, wages £4 a week.*—He will not be called upon for any contribution to the levy, even if part of his £100 be in war savings certificates. He will therefore be better off in consequence, through having to pay no food taxes.

B. *Small shopkeeper (married) with capital £1,800 and personal effects £200, obtaining an income of £600 a year.*—He would have to pay a levy of £165, which, if he chooses to pay it in 30 instalments of 6½ per cent., would be £11 a year. At the same time his income tax would be reduced from £60 to £40, so that he will be better off by £9 a year, and in addition will have no taxes to pay on food. If his profits are larger and he has to pay profits taxes, his gain owing to the levy will be greater.

C. *Small business man (married) with capital £9,000, personal effects £1,000, making profits of £1,700 a year, which are reduced by the profits tax to £1,300.*—If no levy his income is £1,300 less £250 income tax, i.e. £1,050. He will have to pay a levy of £2,200, or 30 instalments of about £150. His income will then be £1,550 less £200 income tax, i.e. £1,350. So that he will be better off to the extent of £300 a year.

D. *Professional man (married) with income of £1,500 a year earned from his profession and a further £500 income received from investments worth £8,000, also having £2,000 personal effects.*—His present income is £2,000 less £450 income tax, i.e. £1,550. He will have to pay a levy of £2,280, reducing his investments to £5,720, yielding an income of about £360. His income will therefore be £1,860 less £270, i.e. £1,590. He will therefore be better off to the extent of £40 a year.

*E1. Business man with capital invested in his own business reckoned as worth £48,000, and £2,000 personal effects, obtaining annual profits averaging £6,000. Of these profits he will have to pay about £1,600 in profits taxes, reducing his income to £4,400, subject to £1,400 income tax and super-tax, leaving him with a net income of £3,000. If there be a levy he will have to pay £18,000, or instalments of about £1,200 a year for thirty years. His income will therefore be £4,800 less £1,060 income tax and super-tax, i.e. £3,740. He will therefore be £740 a year better off.*

*E2. Business man with £48,000 capital invested in a limited company—£20,000 in 7 per cent. debentures and £28,000 in shares, yielding a profit of £3,000, reduced to £2,000 by the operation of the corporation tax and profits taxes, also having an annual fee of £1,000 as managing director, and having a further £2,000 personal effects.—At present his income is £4,400 less £1,460 income tax, i.e. £2,940. He will have to pay a levy of £18,000, which he will do by handing over debentures to this value, leaving him with £2,000 debentures, yielding £140 a year. His total income will then be £140 + £3,000 + £1,000 less £880 taxes, i.e. £3,120. He will therefore be better off to the extent of £180 a year. If his profits are greater, his gain owing to the levy will be more.*

*F. Rentier with £100,000, of which £45,000 (worth) are in Government stocks, yielding £3,000, and £45,000 are in industrial shares, yielding £4,000 but reduced to £3,000 by the corporation and profits taxes, and £10,000 are in personal effects.—His present income is £6,000 less £2,260 taxes, i.e. £3,740. He would pay a levy of £41,000, reducing his Government stocks to £4,000 pounds' worth, yielding £260 a year. His income will then be £260 + £4,000 less £980 taxes, i.e. £3,280—a reduction of £460.*

*G. Man with a million, of which £600,000 are in Government and other trustee securities, yielding £39,000 a year, £350,000 in industrial shares, yielding £30,000, reduced by the corporation and profits taxes to £20,000, and £50,000 in personal effects.—His present income is £59,000, less £33,000 income and super-tax, i.e. £26,000. He would pay £590,000 levy out of his trustee securities, leaving him with £10,000 of them, yielding £650 a year. His income will then be £650 + £30,000 less £10,650 taxes, i.e. £20,000—a reduction of £6,000.*

It will be seen that of these eight classes the first six

will have a larger and only the last two a smaller income as a result of the imposition of a levy large enough to sweep away the whole debt. Similar reasoning can be applied to the other cases when a smaller total levy is obtained. Thus, if the levy is half as great and brings in £m 3,000, the relief to the Budget will be half as much, and the results on the different classes of persons will be half-way between the two cases outlined above.

To sum up. The effect of a levy on capital will be to wipe out the whole or part of the debt and to give the State a financial interest in certain national enterprises. It will bring about partial deflation. It will not change the total aggregate of the wealth of the country as a whole, but will change its distribution. It will make it possible to balance the Budget and reduce direct taxation. In this way business men with moderate incomes will find the levy much less hindrance to their business than the heavy taxes on profits and incomes which will otherwise have to be retained. The persons who will feel the weight of the levy most heavily will be the men of great wealth and those living without personal exertion on the proceeds of their investments.

## CHAPTER XII

### OBJECTIONS TO THE PROPOSAL

**M**ANY arguments have been brought forward against a levy on capital. These I propose now to consider, placing objection and its answer in direct juxtaposition.

1. *A levy on capital is utterly impracticable. If it were ever imposed there would be at once a rush of capitalists to sell their various securities in order to raise the money necessary to pay the levy. There would be no buyers except perhaps a few foreigners. Prices would go headlong downwards. The Stock Exchange would be in panic. The money would not be forthcoming.*

This objection arises through a misconception of what the proposal really is, and has been dealt with already in Chapters VIII and IX. It is only necessary to repeat here that it will not be obligatory to pay the levy in money; that war loan, trustee securities generally and several other forms of capital will be equally acceptable. Where persons do not own any of the acceptable forms, it will be possible for them either to exchange (by sale and purchase) some of the wealth which they do possess with others who hold the required forms, or to pay their levy by instalments spread over a number of years. There is therefore no reason why prices should go down or the Stock Exchange be in panic.

[Since the above was written in the first edition, the Treasury officials giving evidence before the Select Committee have expressed the view that a levy on war-time wealth would tend to raise and not lower the price of gilt-edged securities.]

It would be otherwise if the levy on capital were to be imposed to enable the State to prosecute the war. In such a case ready money would be required and the title-deeds of capital would not meet the purpose. Some people recommend

"conscription of incomes" during a war to raise the necessary money, and often refer to it as "conscription of wealth"; but this is an entirely different proposition from the levy on capital dealt with here, the object of which is to reduce the national debt after the war is over.

2. *Men who have all their money in their business will be unable to meet the levy without crippling their business.*

This is not true; they will be able to get either a private mortgage on their business and hand the money at once to the State, or to arrange with the State to accept payment by instalments spread over a number of years; they will therefore in either case have in effect merely to pay interest on the levy; and for most business men this interest will be less than the reduction which they will obtain on their income tax and profits taxes.

3. *A levy on capital is pro tanto a repudiation of the debt, and as such must be condemned for the same reasons as apply to total repudiation.*

This is not true. A levy on capital differs, as Mr. Bonar Law recognizes, fundamentally from repudiation: (a) it will not be a breach of faith, (b) it will fall generally on all British owners of property and will not discriminate against those who have lent money to the State, (c) it will not fall on foreigners living abroad, (d) it will not fall on small men holding a few war savings certificates, (e) it will not dislocate the finances or the industry of the country.

It must be remembered that the obligations of the State are ultimately secured conjointly on the persons and property of all the citizens of the country and those foreigners domiciled here. The only difference between discharging their obligations by means of ordinary revenue taxation and by a levy on capital is that in the one case the interest on the debt is met out of the income of the people of the country, and that in the other the principal of the debt is paid off out of their capital.

4. *A levy on capital is merely an increase in the taxation of unearned incomes put in a new form.*

The two imposts have, of course, something in common. To take away one-tenth of a man's holding of railway debentures, for instance, is much the same thing as to take away in perpetuity one-tenth of his income derived from this source. But there are real differences between the two taxes. In

the first place, the levy on capital will not be confined to investments, but will fall also on personal belongings which yield no income, such as private motors, horses and carriages, jewellery, furniture, etc. In the second place, it will not fall on the incomes of professional or business men obtained wholly by their own exertions, even though these incomes exceed the line at which all income is reckoned for the purpose of taxation as "unearned." In the third place, it will not fall upon savings effected after the imposition of the levy as would be the case with an annual tax on unearned incomes. In the fourth place, it is differently graduated.

Moreover, whatever similarity there may be between the two imposts from the point of view of the individual taxpayer, there is undoubtedly a great difference from the point of view of the State. If it attempts to meet its obligations by imposing a high tax on unearned incomes, it will remain for a very long time heavily indebted, its citizens will be anxious to emigrate in order to escape the burden of taxation, new-comers will be few, inflation will continue and prices remain high. If, on the other hand, it pays off the whole or a great part of the debt by means of a levy on capital, it will become the owner of a share of the property of the country as a whole, its taxation will be comparatively light, inflation will tend to disappear and prices to go down; it will therefore be an attractive country for its future citizens.

*5. It is unjust to impose a special burden on capital, the result of past savings, and to exempt from it the large incomes obtained from their professions by doctors, lawyers, business managers and others.*

This is a matter of opinion. The facts are that the war has actually increased the aggregate wealth in private hands, while entailing on the country as a whole a great loss. To most people it will appear just that accumulated wealth should be called on for a special contribution to pay off the accumulated debt, leaving to current income to bear the burden of providing for current expenditure.

*6. A levy on capital will discourage future saving and therefore be injurious to the country as a whole.*

This objection would have some weight if it were proposed to institute a levy on capital as a recurrent engine of taxation; it does not apply to the actual proposal which is to impose it once and for all for the specific purpose of reducing the debt.

On the contrary, there will be more inducement to save after the levy because, the debt being lower, the rate of taxation on unearned incomes will not need to be so high (see Chapter XI).

7. *The difficulties of assessment and collection will be insuperable, and evasion will be practised on a large scale.*

Difficulties there no doubt will be. When a nation runs up a debt of many thousand millions sterling, it must expect difficulties whatever method of meeting the debt is determined upon. But the difficulties in the case of a levy on capital will not be insuperable. So far as assessment is concerned, a declaration will be made in the first instance by the individual himself, and the immense mass of information possessed by the Treasury authorities relating to incomes, super-incomes, and inheritances will provide the necessary check on his statement. Some evasion, no doubt, will be practised, particularly through the door of "bearer bonds," but there is no reason to suppose that it will be easier or more extensive in the case of a levy on capital than in that of estate duties, income tax, super-tax and other forms of taxation. Finally, as to collection, the novel proposal to pay in capital will no doubt give rise to new problems, but with careful handling these ought to be capable of equitable adjustment.

8. *The levy will drive capital out of the country.*

This is the favourite cry of those who object to every new direct tax. It has generally a certain small measure of truth; but in this case it is of less weight than usual, for two reasons. In the first place, the levy will come into force on the day on which it is announced; every person domiciled in this country on that day will therefore be liable for the tax, and he cannot escape it legitimately. If he tries to evade it by obliterating all trace of the capital he had on that day, he will always be liable to be found out and made to pay arrears and a severe penalty unless at the same time he himself quits the country; even then there may be international agreements by which he will be brought to book. In the second place, nearly all the civilized nations have incurred debts during the war comparable in magnitude with that of this country. If this country adopts a levy on capital it is likely that a similar proposal will be also adopted elsewhere. But whatever method other countries employ for meeting their obligations, it will necessarily take the form of extremely

stringent taxation. If therefore capital seeks to evade the levy here by flight, it may only find that it has jumped out of the British frying-pan into the foreign fire.

9. *Trusts, settlements and legacies will present a grave difficulty.*

It is necessary to distinguish three cases :—

1. Where the trust was made and took effect before the passing of the Act imposing the levy. In this case the capitalized value of each particular interest will be included in the general property of the individual or institution who benefits by the trust, and he or it will be assessed accordingly.

2. Where the trust is made subsequent to the passing of the Act. In this case the capital of the trust formed part of the property of the donor when the Act was passed. Payment will come out of the whole estate and the trust will be free from the encumbrance.

3. Where a testator makes a will shortly before the passing of the Act and dies shortly after it. This case would naturally be decided as in Case 2 ; but if this were done, considerable hardship might be inflicted on the residuary legatee. The presumption is that the testator has divided up his estate, as he believes it will be at his death, between his various beneficiaries and that the unexpected intervention of the levy on capital by reducing the total has radically altered the intended proportions. To meet this objection the Act imposing the levy should contain a special clause providing that when a testator dies within a certain period after the passing of the Act (say three months), and his Last Will shall be found dated prior to the Act proportional abatement shall take place in all legacies, with a corresponding relief to the residue. The testator will always be able to adjust the situation according to what he wishes by a codicil made subsequent to the Act.



## CHAPTER XIII

### CONCLUSION

**A**N attempt has been made in this book to face the hard facts of post-war finance. Leaving out of account human losses, an estimate has been formed of the cost of the war to different sections of the community. The increase of the State debt, the loss occasioned to the country as a whole, the accretion of wealth in private hands have been analysed and correlated.

It has been shown that accepting certain assumptions as to the value of the loans to the Allies and Dominions, and of the reparation obtainable from Germany, the net debt of the State increased in exchange value from about £ m 500 before the war to about £ m 6,000 at the end of March 1920. It has been estimated further that the country as a whole has lost about one-sixth of its total capital wealth during the war. Finally, the curious fact has been revealed that the aggregate of wealth in private hands (including holdings of war loan) has nominally increased by some £ m 5,000, or two-fifths of its total pre-war figure; and that the unequal distribution of wealth which was a serious blot on our civilization in 1914 is greatly aggravated in the year 1919. It seems particularly unjust that the soldiers and sailors and airmen who have risked their lives in the war should on their return to civil life find themselves burdened with taxation to pay interest on the money accumulated during their absence by those who stayed at home.

These facts will be brought home to the Chancellor of the Exchequer when he attempts to balance the first peace Budget. He will find a net State debt of some £ m 6,000. If he is to pay interest on this and provide a reasonable sinking fund he will have to keep the income tax and super-tax at their present high level, and also retain the corporation tax and

severe taxes on profits. Even so he will not get rid of the floating debt. If he adopt a capital levy, but confines it to war-time wealth, he will only secure £ m 400 or £ m 500 and make some reduction in these taxes. On the other hand, if he adopts a general capital levy to bring in the whole £ m 6,000, he will be able to get rid of the floating debt, abolish the corporation tax, profits taxes, taxes on food, and to reduce normal income tax from 6s. to 4s. and the other rates of income tax and super-tax to two-thirds their present level.

This levy would be made at a graduated rate on all the wealth in the hands of individuals, and at a fixed rate on part of the wealth in the hands of clubs and institutions. It would be exacted once and for all for the specific purpose of expunging or reducing the National Debt. It would be payable, at the option of the taxpayer, either in money or in certain specified forms of securities. In this way it would be able to be collected without deranging the finance or industry of the country.

So cogent will prove the hard logic of facts that it is almost certain in my opinion, that whatever Government is in power a levy on capital will ultimately have to be resorted to. The only matter of doubt, I believe, will be the magnitude of the levy and the character of the graduation. In the later chapters of this book data have been supplied which will assist the discussion of these issues.

I hope that the possibility of raising a levy large enough to sweep away the whole of the National Debt will not be lightly dismissed. Such a step will undoubtedly be heroic, but will be fraught with enormous benefit to the future prosperity of the country. It will put an end to the gravest part of the maldistribution of wealth, make it possible to balance the Budget, deflate the currency, and free the industry of the future from the crushing burden of debt. It is true that the contributions required from the various sections of the community to raise a levy of this magnitude seem at first sight so large as to be prohibitive. But on closer examination it will be found that the relief afforded to other taxation will be correspondingly great, and that for all except the classes with great accumulated wealth the relief is greater than the burden. The workman, the small shopkeeper, the professional man, the moderate business man have all to gain by the proposal.

As to the wealthy I am not one of those who minimize the hardship inflicted on a very rich man when he is called upon

to part with a considerable percentage of his wealth. I recognize that though he will still have an amount remaining which would be for a smaller man beyond the dreams of avarice, yet the deprivation means generally a complete recasting of his whole life. At the same time, I hold that the hardship inflicted on the very rich by a severe levy on capital at the end of the war will be a less evil to the country as a whole than any other measure which might be adopted to meet the situation. If the burden of the accumulated debt is not borne in some way or another by the accumulated wealth of the country, it will be a millstone hanging round the necks of the people for generations to come; it will cripple industry, it will perpetuate poverty, it will ingenerate slums, malnutrition and disease.

I believe that when the war is over a great demand will arise from large sections of the community, not confined to the proletariat, that the whole of the debt shall be swept away by a levy on capital, so that the production of wealth in the future may be directed towards supplying the needs of the many rather than the luxuries of the few. I appeal to those who possess great wealth not to place obstacles in the way of the satisfaction of this demand. Many of them have increased their wealth during the war without special exertion and as a result of the necessities of the nation; they can hardly complain if they are called upon to give up the whole or part of this increase. Even as to the others, whose great wealth is of longer standing, the hardship of parting with some of it will be less at the immediate close of the war than at any other time, because already during the years of war they have cut down the scale of their current expenditure and will not therefore have to recast their whole method of life.

I can conceive of nothing more likely to promote goodwill and co-operation between different sections of the community than a generous acceptance of this position by the wealthy classes. I believe that those who contribute to the nation's wealth by brain or hand will be encouraged by it to put forward their best work for the common good. On the other hand, I can conceive of nothing more fraught with grievous peril to the country than a sordid struggle in which the very rich are fighting with their backs against the wall to preserve their vast hoards of wealth against the growing demands of industry and the persistent claims of poverty and distress.

## 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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