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**THE CAPITAL LEVY
EXPLAINED**

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THE INEQUALITY OF INCOMES (Routledge)

THE CAPITAL LEVY EXPLAINED

BY

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The Capital Levy Explained

I

THE CAPITAL LEVY AND THE 1922 ELECTION

THE Capital Levy sprang suddenly into prominence as a first-class political issue at the General Election of November 1922. More than any other flag carried into that battle by the Labour Party it drew the enemy's fire. Part of this fire consisted of genuine and honest criticism, which deserved and generally received a reasoned answer. But part, especially that which emanated from certain newspaper offices and, in leaflet form, from the headquarters of the Conservative Party, consisted of the poison-gas of deliberate and shameless misrepresentation.¹ Such wilful perversions of the truth are no novelty, unhappily, in practical politics, and were not unexpected by those who supported the policy of the Levy. But there is plenty of evidence to show that this policy, when courageously advocated and clearly explained, won votes rather than lost them. Further, and this is of more permanent importance, there is no doubt at all that the campaign, fought so largely on this issue, led large numbers of the electors to realise, vividly and for the first time, the problem of the War Debt and its intolerable burden. We have lighted a candle which will not

¹ See Note E, pp. 89-91.

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be put out. No complete relapse into the previous conspiracy of silence regarding the Debt will henceforth be possible. The continuance, even by a Conservative Government pledged to "tranquillity," of a policy limited to the prompt and punctual payment, year after year, of some £350 millions of the unfortunate British taxpayers' money to the fortunate creditors of the State, has been rendered much less easy.

It is the task of those who support the Levy to continue, during the next few years, the education of all sections of public opinion. We should seek to remove all grounds of misunderstanding and irrational panic. We should arm honest minds in advance against dishonest misrepresentation. We should keep the question well to the front, and we should be prepared, at the first favourable opportunity, to put our policy into operation. In this matter, as in many others, the policy of those now in power is merely one of idle drifting, of waiting for something to turn up, of masterly but ruinous inactivity.

As a professional economist, specialising to some extent in problems of public finance, it became my duty several years ago to study this question with considerable care. As a result of such study, I formed the opinion, which I still hold, that the policy of the Levy is fundamentally sound, and indeed that, until it is adopted, our financial and economic prospects will remain needlessly dark, dangerous and difficult. As a parliamentary candidate, I have done my best to influence opinion in its favour, and I hope that this little book may help still further in the same direction.

The principle of the Levy being admitted, there is everything to be said for keeping an open mind as to details. In what follows, I have taken, as the general basis of discussion, the proposals contained

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in *Labour and the War Debt*,¹ the Labour Party's official statement of policy on this subject issued some months before the election. But it may well be that further study and discussion of the question will suggest various improvements in the details of this particular plan.

¹ *Labour and the War Debt, a Statement of Policy for the Redemption of War Debt by a Levy on Accumulated Wealth* (published by the Labour Party, 33 Eccleston Square, London, S. W. 1. Price 2d.).

II

THE BURDEN OF THE DEBT

THE British National Debt now amounts to some £7800 millions, as compared with some £700 millions in 1914. It amounts, therefore, to about £160 for every man, woman and child in the United Kingdom. The annual interest on this Debt amounted in 1921-1922 to £332 millions. In 1922-1923 it is estimated that it will amount to £335 millions. This estimate is probably under the mark, even for this year, since part of the interest on the Debt owing to the United States Government falls due to be paid for the first time. It is certainly under the mark for future years, when the full interest on the American Debt will presumably have to be paid, and when, unless we are to assume that the present trade depression will show no improvement, the Treasury will have to pay a higher rate of interest on the Floating Debt. We may, therefore, safely estimate that the interest on the Debt alone will amount in the next few years to at least a million pounds a day. This interest will have to be paid, day by day and year by year, by the British taxpayer, in the form of taxes on tea and sugar, on beer and tobacco, on entertainments, on the profits of limited liability companies, on incomes and on property passing at death.

According to the official estimates for 1922-1923, these interest charges will swallow up £335 millions out of a total tax revenue of £729 millions and out of a total revenue from all sources of £911 millions. In other words, 46 per cent., or nearly half, of the yield of all the taxes and 37 per cent., or more than a

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third, of the total revenue of the country is being devoted to paying interest on the Debt.¹ In the next few years these percentages will increase; for not only will the interest on the Debt increase, but "economies," some good and some bad, will probably be made in other forms of public expenditure—armaments and Mesopotamia on the one hand and social services on the other. Interest on the Debt will thus account for a larger and larger percentage of the total national expenditure. Moreover, it is possible, especially if prices fall, that the yield of the existing taxes will continue to decline, and in that case the Chancellor of the Exchequer will be faced with the alternatives of a further increase in annual taxation or of fresh borrowing, which will still further swell the interest on the Debt, in order to balance his Budget.²

All this is an appalling prospect. To pay away a million pounds of taxation a day for education, health and housing would be a bold and hopeful adventure. To pay it away for capital development in our fundamental home industries—coal-mining, transport, electric power, etc.—or even in new sources of supply of foodstuffs and raw materials in distant lands, might be a defensible scheme of investment in the social interest. To pay it away as a Sinking Fund, which would wipe out the whole Debt within a generation, would be a sound financial transaction. But what we are now doing is to pay it away for nothing, as a permanent annual tribute to the holders of War Loan

¹ See Note A, p. 71.

² "If prices were to go back to the pre-war level no Chancellor could balance his Budget. . . . If we get back to the 1913 prices and value of money, we shall get back also to the 1913 national income and yield of income tax, on which basis a rate of over 8s. in the £ would be required to meet the annual charge for debt alone" (Mr McKenna, to the Shareholders of the London Joint City and Midland Bank, reported in the *Times*, January 25th, 1923).

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and other public securities. The sums thus paid away are, indeed, partly reinvested, but are largely spent on the immediate enjoyments of the recipients, who are rendering no present service in return for what they receive and who, just because they have this assured source of future income, are in many cases the less inclined to work and save. This is an intolerable proceeding, if it is to continue indefinitely. For meanwhile taxation, at its present level, not only keeps up the prices of foodstuffs, such as tea and sugar, and of the staple working-class luxuries, such as beer, tobacco and entertainments, but falls very heavily upon the smaller income-tax payers, hinders the revival of trade and checks new saving.¹ At the

¹ For a fuller discussion of these and other relevant questions, see my *Public Finance* (Routledge, 1923). It may be added here that our present heavy taxation to pay interest on the Debt aggravates the already glaring inequality in the distribution of wealth, for it involves, on balance, a transfer of wealth from the poorer to the richer members of the community. It involves also, on balance, a transfer of wealth, which is equally indefensible, from the younger to the older generation, from those who fought in the war to those who were too old to fight, and from the active and on-coming to the passive and well-established section of the population. Mr Keynes truly points out (*Manchester Guardian Commercial, Reconstruction in Europe*, Section Eleven, December 7th, 1922, p. 658) that, "if the fixed charges of the National Debt bear too high a proportion to the national income, it may offer a problem insoluble by orthodox methods. The active and working elements in no community, ancient or modern, will consent to hand over to the *rentier* or bondholding class more than a certain proportion of the fruits of their work. When the piled-up debt demands more than a tolerable proportion," other solutions of the problem must be faced. Among these, he adds, is "a capital levy, which is the best solution on merits, but is difficult to explain or understand, as the ignorance of the solid arguments on either side in the columns of the press has lately exhibited." Elsewhere he remarks that "I am one of those who believe that a capital levy for the extinction of debt is an absolute prerequisite of sound finance in every one of the European belligerent countries" (*Economic Consequences of the Peace*, p. 263).

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same time the squeeze to balance the Budget strangles social expenditure in every direction. It is said, and quite truly so far as the present Budget situation goes, that we cannot afford to spend more, or even as much as last year, on education, housing or public health, that we cannot afford to grant pensions to widows with dependent children, nor to make war pensions or old age pensions more generous, nor to prevent the demoralisation and poverty, which is the present fate of the unemployed. Our rulers are, therefore, driven, in Mr Bonar Law's words, "to avoid attempts at improvement, which at another time would be very desirable and very necessary."¹ It is to prevent the indefinite continuance of such a state of things, and to hasten the coming of this "other time," that the Capital Levy is required.

¹ In the speech in which he accepted the leadership of the Conservative Party and outlined his policy (reported in the *Times* of October 24th, 1922).

III

THE ALTERNATIVES TO THE CAPITAL LEVY

THE object of the Capital Levy is to pay off quickly, by a special emergency effort, a large proportion of the War Debt, so as to allow of a permanent lowering of the level of annual taxation and a permanent raising of the level of social expenditure. I am satisfied that such a Levy would be a perfectly practicable financial operation. Many of the difficulties which critics of the Levy have recently brought forward are wholly imaginary, and would not have been brought forward at all if these critics had taken the trouble to make themselves acquainted with the details of the Labour Party's proposals. Some of the difficulties, however, are real, but, as I shall argue later, they are not fatal to the success of the scheme, and can be met by the application of a little common sense and the adoption of a few reasonable compromises.

What, however, are the alternatives to the Capital Levy? The first is to do nothing to reduce the Debt—a hopeless policy which, as I have pointed out above, opens up an appalling prospect of the continuance of taxation, year after year, at approximately the present level, and of the continued starving of the social services, the growth of which, especially as regards education and health, is one of the essential conditions of a better future. I do not deny that, if we choose to pay the price of starving the social services sufficiently, if we are “very careful with the stamps and stationery” in

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Government offices,¹ and if we succeed during the next ten years in avoiding fresh wars, and in limiting competitive armaments and expensive military commitments abroad, some small relief of taxation may, with luck, be obtained. But it can only be trifling, and if the luck is the other way, and especially if prices go on falling, a further increase in taxation will be unavoidable.

Some of the advocates of a "do nothing" policy think that "time is on our side," and that, if we only sit still and look at the Debt long enough, its real burden will gradually diminish, as a result of the growth of wealth and population in this country in the years to come and through a series of "conversion operations" from a higher to a lower rate of interest, as successive portions of the Debt mature for repayment. Those who take this rosy view often appeal to the history of the nineteenth century. I believe that they are completely deluded, and that their historical analogies are worthless. I give my reasons for this belief in the next section.

The second alternative to the Capital Levy is the ancient policy of the Sinking Fund. This, again, like economising with stamps and stationery, may have been adequate to the finance of the Victorian era, or even of the era which ended in August 1914. But it is not adequate to the problem which confronts us now.

A Sinking Fund is created when revenue exceeds expenditure, the surplus being used to reduce debt by purchasing public securities in the open market

¹ There are still some eminent public men who think that we can escape from our overwhelming financial difficulties by practising petty "economies" in the Gladstonian style. They have not yet got our present-day problems into focus. "Mr Asquith, on his side, talks of economy, not about the debts. None of them mention the debts. The whole of civilisation is insolvent, and Mr Asquith thinks that we ought to be very careful with the stamps and stationery" (H. G. Wells, *The World, its Debts and the Rich Men*, p. 7).

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and then cancelling them. On a Debt of the present magnitude, a small Sinking Fund will make practically no impression, while a large Sinking Fund will necessitate a large increase in annual taxation. Further, even a comparatively large Sinking Fund will only give a comparatively small relief in interest charges within the next twenty years. With 5 per cent. War Loan standing at par, it will cost £100 to reduce interest charges by £5 a year—that is to say, in order to reduce interest charges by £5 millions a year progressively,¹ it will be necessary to institute a Sinking Fund of £100 millions a year, which would mean, for example, an increase in the standard rate of income tax from 5s. to about 7s. in the £, with no immediate prospect of bringing it down again to the present level. As a matter of fact, this is an understatement of the disagreeableness of the position, and a Sinking Fund of more than £100 millions a year would be needed for the purpose in hand. For, at present prices, 5 per cent. War Loan is one of the cheapest forms of debt to redeem. More than £100 will have to be spent in order to reduce annual interest charges on other forms of debt, such as Consols, Conversion Loan or Victory Bonds, by £5. Moreover, the effect of instituting a Sinking Fund of £100 millions a year or more will be to drive up the market price of Government securities, and so to make their redemption more expensive. It will thus help to defeat its own object.² For the present generation of taxpayers there is small hope of comfort in Sinking Funds, except, as will be explained below, as a sequel to a Capital Levy.

¹ *I.e.* to such an extent that the interest charges in any year are £5 millions less than in the year before.

² As against this, it is true, but comparatively unimportant, that it will help to facilitate conversion operations from a higher to a lower rate of interest. The question of conversion is dealt with in the next section.

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The third alternative to the Capital Levy is the forcible reduction of the rate of interest on the Debt. To some minds this proposal appears to be simple, effective and equitable. I believe, however, that the weight of argument is overwhelmingly against it, and that its advocates have not clearly realised how their proposal would work out. I also believe that, if attempted, it would arouse much more violent and widespread opposition than the Capital Levy, and rightly so. Moreover, even if it were workable, it would be no more effective than the Capital Levy in its immediate object of reducing the interest charges on the Debt. The case against this proposal has been clearly set out in the official statement of the Labour Party's policy. "Let us suppose that the proposal is to reduce the rate of interest by half. At first sight it would appear that this would result in an annual saving of £195 millions a year. But this is not really so. Out of £7800 millions of debt, £1090 millions is due to the United States Government, which would certainly not agree to a forcible reduction of the rate of interest.¹ Another £1140 millions is floating or short term debt, which has to be reborrowed from week to week at the current rate of interest in the money market. A forcible reduction of the rate of interest here would simply result in the Government failing to obtain a renewal of its loans and being faced with a large deficit. £1500 millions of the remainder of the Debt is due for repayment at various fixed dates within the next seven years; and any forced reduction of interest would simply put the Government in the position of being unable to pay off the principal sum, as it would be unable to borrow the necessary amount.

¹ Nor would the United States Government agree to a reduction in the rate of interest on the holdings of individual American citizens and corporations, which, though no precise estimate of them is available, certainly amount to a considerable total.

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“On the remaining three or four thousand millions of debt an arbitrary reduction of the rate of interest would, indeed, be possible. But there are conclusive arguments against this policy.

“In the first place, it would be a breach of faith with the present holders of War Loan, who in many cases are not the original subscribers, but persons who have purchased either from the original subscribers or from others. The Government, when it issued these loans, pledged itself to pay a fixed rate of interest upon them, until such times as the loans were paid off. This may have been a foolish pledge. It might have been better to offer terminable annuities (as with War Pensions), or to offer a rate of interest which would fall on a sliding scale, as the cost of living fell. But these alternatives were not taken. To alter the arrangement now would be to break a pledge and, though the present Government has broken many pledges, this is not an example which a Labour Government should follow. Moreover, as will be shown below, it is possible to reduce the Debt charges equally effectively by other means.

“In the second place, the proposal to reduce the rate of interest on the Debt would pick out for special treatment a single class of property owners. But this class, the holders of War Loan, are not essentially different from other property owners, such as investors in local loans, or in joint stock companies, land-owners, owners of mineral royalties or holders of foreign investments. Sacrifices for the common good may rightly be demanded of property owners, according to their wealth, but not of a single class, to the exclusion of all others. No objection can be made to the Government taking advantage of any fall in the rate of interest on securities generally to propose to the holders of Government securities (as Gladstone and Goschen successfully did in last century) *to pay back the sums owed by the State*, in accordance with

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the terms of the bond, or, in the alternative, to re-borrow at a lower rate of interest. This course will certainly be taken by any Government as soon as the rate of interest falls sufficiently to allow the Government to be able to borrow enough at the lower rate to be able to pay off those holders who prefer this alternative. But there is at present not the slightest prospect of such a condition for many years to come. . . .

"In the third place, the proposal would operate unfairly as between various classes of War Loan holders. It would have the same effect as an additional income tax of 10s. in the £ on all income from War Loan, regardless of the amount of War Loan held by different individuals. A man with a few Savings Certificates would be taxed at the same rate as a man holding a million pounds of War Loan. But this would be contrary to the Labour Party's principle of taxation according to ability to pay, which requires that the larger incomes should be taxed at a higher rate than the smaller. Moreover, a good deal of War Loan is held by Savings Banks, Friendly Societies, Co-operative Societies, in which many millions of working-class families are vitally interested, together with Educational Bodies and charitable endowments, etc., and it is not reasonable that these should lose half the income on their holdings.

"In the fourth place, as has already been pointed out, the object of the proposal—namely, a large reduction of the Debt charges—can be more effectively achieved by another method, which is free from all these objections."¹ But it is significant that such a proposal should have been made at all and should have gained a certain amount of backing. It is significant of the growing exasperation of public opinion at the stranglehold of Debt on our financial

¹ *Labour and the War Debt*, pp. 5-7.

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life and on our hopes of social improvement. The tooth-and-nail opponents of the Capital Levy would be wise to ponder over this phenomenon, and to modify their unyielding attitude, lest a worse fate than the Levy befall them.

The fourth alternative to the Capital Levy is complete repudiation of the Debt. This is merely a stronger dose of the last alternative, the arguments against which apply here with added force. It is well outside the range of practical politics at present and is likely to remain so. But prolonged and recalcitrant opposition to the Levy might alter the situation and make it a live political issue. This would be very uncomfortable for the propertied classes, for the proposal summarily to abolish one form of property would soon lead to proposals to abolish others likewise. Those who prize "stability" and "security" should not deliberately encourage the evolution of political thought along such lines.

The fifth alternative to the Capital Levy is to leave the Budget unbalanced and to fill the gap between revenue and expenditure by printing paper money. This is currency inflation, the results of which may be seen in Germany, Poland, Austria and elsewhere. The effect of this policy is to lower progressively the value of money in the country concerned, and hence to reduce the real burden of a public Debt, the interest on which is fixed in terms of money. This policy, therefore, has much in common with repudiation. But it leads also, not merely to a progressive rise in prices and hence in the cost of living within the country—wages as a rule lagging behind prices in the upward movement—but to a progressive fall in the value of the country's money abroad or, in other words, to a progressive fall in its rates of foreign exchange. This state of things is a paradise for profiteers and speculators, and business men in general are enriched, through no additional effort

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of their own, but simply through the accident of rising prices. They are enriched partly at the expense of wage-earners, but still more at the expense of those with fixed money incomes; of whom the holders of Government securities are only one section. There is no social justice here. Further, when a country has once started on the downward path of inflation, it becomes more and more difficult to call a halt; the depreciation of the monetary standard proceeds more and more rapidly, all trade becomes a gamble, and the end is likely to be a headlong plunge into economic and political chaos.

All those who, though disliking the idea of a Capital Levy, yet agree with me in thinking all the five alternatives discussed in this section open to serious objections, should be prepared to consider whether the Levy is not, after all, the least disagreeable way out of our present difficulties.

IV

AN HISTORICAL COMPARISON

IT is natural that the present situation should be compared with that of a century ago, when this country had just emerged from the Napoleonic wars, and when, as now, the burden of a huge war debt was a dominating factor in national finance. Up to a point, such a comparison is very instructive, but wrong inferences may easily be drawn from what happened then to what is likely to happen now.

"After the Napoleonic wars the Debt was some £850 millions, or about £52 per head of the population. At that date the national wealth was about £159 per head, so that the Debt was about one-third of the national wealth."¹ Now, when the Debt is some £7800 millions, statisticians hesitate to give at all precise estimates of the national wealth, owing to the instability of values. But, on the basis of such rough estimates as have been made, the Debt now almost certainly amounts to more than a third of the national wealth. To that extent, therefore, the position is more serious now than it was a century ago.²

At that time, however, public opinion appears to have been more keenly alive to the gravity of the problem than it is now. Cobbett, as Member of Parliament and journalist, was largely responsible for this. He advocated, not a Capital Levy, but a forcible reduction of the rate of interest, and "held

¹ Stamp, *Wealth and Taxable Capacity*, p. 181.

² On the other hand, wealth per head being greater, a given percentage tax imposes a smaller real burden.

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the opinion that no Parliament had a right to make the child pay the debts of the father, the father having left the child nothing to pay with; and that, upon the same principle, no generation of men had the right to contract debts and to bind their successors to pay them; and that it was an act of injustice hitherto unheard of in the world for a nation to borrow money and to squander it away, and to doom the children in the cradle to work like slaves all their lives to pay the interest of the debt, when there was nothing left to them which was purchased with the money so borrowed. . . . Our complaint was, and mine, in particular, that a system of confiscation was going on against the poor in favour of the rich."¹ A number of petitions in favour of the reduction of the rate of interest were presented to Parliament about this time.

Heine, describing London in 1828, found even the barber who shaved him talking about the Debt, and summarises his impressions as follows:—"The greatest of all evils is the Debt. . . . The whole of England has become one vast treadmill, in which the people have to work night and day in order to feed their creditors; England has lost all the gaiety of youth and has grown old and grey through money worries; England—like most men heavily in debt—has been driven to a state of dull and helpless resignation." And again, "What is the great anxiety which torments England's Ministers night and day? The Debt. Debts, like patriotism, religion, honour, etc., are among the privileges of mankind—for the beasts have no debts—but they are also among the chief troubles of mankind. They ruin not only individuals but whole races. They play the part of Fate in the national tragedies of our time. England cannot escape this Fate. Her Ministers

¹ Cobbett's *Political Register*, July 6th, 1833.

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see the Spectres approaching."¹ Our Ministers of to-day seem less clear sighted!

A Capital Levy was, indeed, supported a century ago, as it is at the present time, by some of the leading economists of the day. Thus Ricardo, who cannot be accused either of revolutionary opinions or of lack of business experience,² held that "a country which has accumulated a large debt is placed in a most artificial situation. . . . A country which has involved itself in the difficulties attending this artificial system would act wisely by ransoming itself from them, at the sacrifice of any portion of its property which might be necessary to redeem the debt. That which is wise in an individual is wise also in a nation. . . . This scheme has been often recommended, but we have, I fear, neither wisdom enough, nor virtue enough, to adopt it."³ And again, "to pay off the whole or a great portion of our debt is, in our estimation, a most desirable object. This cannot, or rather will not, be done by a Sinking Fund as at present constituted, nor by any other that we can suggest; but if, without raising any fund, the debt was paid by a tax on property, once for all it would effect its object. Its operation might be completed in two or three years during peace, and if we mean honestly to discharge the debt, we do not see any other mode of accomplishing it. . . . Thus, by one great effort, we should get rid of one of the most terrible scourges which was ever invented to afflict a nation."⁴

Ricardo was, unhappily, right in his estimate of the wisdom and virtue of the politicians of those days. The Capital Levy was not adopted. The

¹ *Englische Fragmente.*

² He made a large fortune in the City.

³ *Works*, p. 149.

⁴ *Ibid.*, pp. 545-546.

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effects of this decision would have been very serious but for a surprising run of luck, which could not have been foreseen at the time when the decision was taken. Little was done to reduce the Debt, but its real burden and its relative importance, as compared with the national wealth and income, were gradually reduced during the succeeding period by the growth of wealth and population, and by the great gold output, first from California and Australia, and later from South Africa.

The growth of wealth was mainly due to the transport, banking and industrial "revolutions," to fortunate inventions, which the rest of the world was slow to imitate, and to the rapid opening up of new countries. The growth of population was due to causes which are still obscure, but resulted in a large and rapid increase in aggregate wealth, over and above the increase in wealth per head of the population. But these developments alone, unaccompanied by the gold discoveries, would have done little to ease the problem of the Debt. For they would have brought about a continuous fall in prices, while the real burden of the Debt, fixed in terms of money, would have steadily increased. It was the gold discoveries, and the subsequent rise in gold production on a scale unparalleled in previous history, which twice during the century first checked and then reversed the fall of prices resulting from increased production of commodities. Prices, in fact, fell 25 per cent. between 1821-1825 and 1846-1850, then rose 20 per cent. between 1846-1850 and 1871-1875, then fell 40 per cent. between 1871-1875 and 1894-1898, and again rose 25 per cent. between 1894-1898 and 1906-1910.

The Debt was only reduced from £850 millions in 1817 to £840 millions in 1842, £800 millions in 1867, £660 millions in 1895, and £707 millions in 1914. The net reduction in ninety-seven years is thus only

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£143 millions. It is true that, of the £707 millions outstanding in 1914, some £210 millions represented new borrowings since 1817, including £140 millions for the Boer War and £35 millions for the Crimean War. But there remained some £496 millions of the Debt of 1817, which had not been paid off in 1914. Even to-day, therefore, we have not yet finished paying for the Battle of Waterloo, much less for the Charge of the Light Brigade, or the Relief of Ladysmith. If historical precedents are faithfully followed, our descendants in the year 2023 will still be paying for Ypres and the Somme.¹

Some people imagine that, although the principal of the Debt was not much reduced between 1817 and 1914, yet large reductions were made in the annual interest charge by means of conversion operations. This is a delusion. The annual interest charge was reduced by only £8½ millions, from £33 millions to £24½ millions, during this period.² As Sir Josiah Stamp points out, "during the nineteenth century conversion gave very little relief. . . . The only refunding operation that made a saving commensurate with the effort involved was Goschen's in 1888 and 1889," and this only resulted in a reduction of less than £1½ million in the annual interest charge at that time, and a further, but smaller, consequential reduction in 1903.³

¹ In a sense, of course, wars are paid for at the time and not afterwards. But, when they are paid for by borrowing, taxpayers are involved in liabilities which continue until the debts are paid off.

² Moreover, if account is taken of the fall in prices, or, in other words, of the rise in the value of money during this period, both the real value of the annual interest charge in terms of commodities and the real value of the principal of the Debt were actually greater at the end than at the beginning! This is a very remarkable fact, which economic historians do not generally tell the public.

³ *Wealth and Taxable Capacity*, p. 186.

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From 1817 to 1914, then, this country was burdened with a debt, which successive generations of politicians made little effort to reduce. But fortune was on their side, and their supineness did not lead, as it might well have done, to any obvious financial disaster. But it did lead, when taken in conjunction with their views on the limits of prudent taxation, to that starving of the social services—education, health, housing, and the rest—which is one of the most serious blots on the economic record of the Victorian age. Money, being required to pay interest on the Debt, could not be spared for investment in human capacities. We are suffering to-day from the effects of this false economy.

Let us now turn from history to intelligent anticipation. Not much reflection is required in order to realise that the events of the past give no solid ground for hope regarding the prospects of the future, unless we prove ourselves to possess, as Ricardo put it, more "wisdom and virtue" than our forefathers. We cannot reasonably expect to enjoy such another run of luck as saved them from the worst effects of their "do nothing" policy.

There is no ground for anticipating so rapid an increase in wealth per head of the population as fell to their lot. "Past the 'bloom of youth' in our coal and iron resources, we may well hope to plod along and make good progress, but we can hardly expect a sensational leap to new wealth and producing power."¹

No such rapid increase in population is to be looked for, or indeed to be desired, as took place a century ago, and such an increase, if it came, would not bring with it a corresponding increase in aggregate wealth. This little island is already, perhaps, overpopulated. It is, in any case, well within sight of that

¹ Stamp, *Wealth and Taxable Capacity*, p. 182.

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condition, and the migration of its inhabitants to lands beyond the seas is even now being subsidised.

The future of prices, and indeed of currency systems, is uncertain, but a further fall in the price level in the course of the next generation is at any rate a serious possibility. This would increase the real burden of any Debt left unredeemed and, if it went beyond a certain point, would unbalance any Budget which did not both "economise" ruthlessly in all directions and considerably raise the present level of annual taxation. For while the yield, in terms of money, of taxes at their present rates would shrink, expenditure, in terms of money, would shrink much less rapidly, and the biggest single item of expenditure—namely, interest on the Debt—would not shrink at all.¹ It would be very rash to count upon a repetition of gold discoveries on a large enough scale to check such a fall in prices, or even upon the possibility of the adoption of such plans as those of Professor Irving Fisher and other economists for stabilising the value of money independently of the value of gold.

In two respects, however, history does seem likely to repeat itself, if we choose to give it the opportunity. In so far as we rely upon future conversions to reduce the annual interest charge on the Debt, we are likely again to achieve very little. And if we make no serious attempt to repay a large part of the Debt in the near future, false economies in social expenditure will almost certainly be repeated and wide fields of human hope and promise will continue to lie waste.

The correct inference from these historical inquiries is, not that we can afford to leave the Debt alone and to indulge a vague complacency as to the future, but that, unless we take strong and speedy action, we are likely to pay heavily for our inertia.

¹ See Note A, p. 71.

V

THE CAPITAL LEVY AS A PRACTICAL PROPOSITION

THE Capital Levy, as proposed by the Labour Party, would be a special emergency payment by all individuals owning more than a certain amount of wealth. This payment would be graduated according to individual ability to pay. The greater the wealth of the individual, the greater the proportion which he would be required to pay. The Levy would be imposed, not annually like the income tax, but once and for all, though those liable to it would be allowed in certain cases to pay, if they preferred, by instalments over a term of years. This point is dealt with more fully below. The proceeds of the Levy would be earmarked for the reduction of Debt, and the whole object of the Levy would be to secure such a reduction in the annual Debt charges, as would allow both of a permanent reduction in annual taxation and of a permanent expansion in social expenditure on education, health, etc. The Levy would not have to be paid in cash. As a general rule, it could be paid, at the option of the payer, either in cash or in War Loan or other Government securities, or, if payment in these forms were impossible, in any other reputable securities which were readily realisable on the Stock Exchange. All payments would be transferred by the Inland Revenue Commissioners to the National Debt Commissioners. Where payment was made in cash or by cheque, the proceeds would be used to purchase War Loan and

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other forms of National Debt, which would then be cancelled, or to pay off Debt as it matured for repayment. Where payment was actually made in War Loan or other forms of National Debt, these would be cancelled as received. Where payment was made in other securities, these would be held by the National Debt Commissioners, who would receive the interest on them and apply it, as in the case of cash payments, to the purchase (or repayment) and cancellation of War Loan, etc. All such securities would in due course be sold by the National Debt Commissioners, who, however, would be instructed to unload gradually, relying upon expert advice and waiting for favourable market opportunities. The proceeds of the sale of such securities would likewise be applied to the purchase (or repayment) and cancellation of War Loan, etc. All payments of the Levy, therefore, in whatever form they were originally made, would finally resolve themselves into cancellations of Debt.

So much for the broad outline of the scheme. We may now go on to fill in some details.

The basis of individual assessment to the Levy would be substantially the same as the present basis of assessment to the estate duty on individual property passing at death—that is to say, the basis would be the present money value of the individual's *total net wealth*, after deducting all mortgages, bank overdrafts and other debts. This basis is familiar, from their daily experience of death duty administration, to the Inland Revenue officials, whose business it would be to collect the Levy.

It is a point of fundamental importance, which is not always understood, that the basis of assessment would be individual and not corporate. No Company would be liable to the Levy, though its individual shareholders would be liable, if their total net wealth, including their shares in the Company, exceeded a certain figure. Thus, for example, no Bank or

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Insurance Company would be liable to the Levy. Nor would any educational or charitable institution. Nor would any Co-operative Society, Friendly Society, or Trade Union. Only individuals would be liable.

According to the Labour Party's proposals, only those individuals would be liable whose total net wealth exceeded £5000. This is the same figure as that proposed by the Board of Inland Revenue in 1919 in its scheme for the taxation of war fortunes.¹ Its justification is, not that suggested by some political opponents of the Levy, that most Labour leaders have less than £5000 worth of property, though incidentally this fact is true, but that a higher minimum would unduly reduce the yield of the Levy, while a lower minimum would unduly increase the cost and complexity of its administration, without producing a commensurate increase in yield.

A minimum of £5000 would exempt all small property owners and all those now exempt from income tax. The number of individuals who would then be liable to the Levy would be, according to such information as is available,² between 300,000 and 400,000. To deal with these would be a manageable administrative problem. If, however, the minimum was lowered to, say, £3000, the number of individuals liable would be nearly doubled and many would then be required to pay the Levy who are not at present liable to pay income tax. Apart from the administrative difficulties involved, this would not be a reasonable interpretation of taxation according to ability to pay.

¹ "The Board do not think it would be practicable to carry the effective exemption limit below £5000. An important consideration is that many of the very numerous persons in the lowest ranges of wealth are owners of small businesses, the valuation of which presents grave practical problems" (Cmd. 594, p. 9).

² See Note C, p. 75, on the Yield of the Levy.

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The scale of Levy suggested by the Labour Party is as follows :—¹

	<i>Of an Individual's Property.</i>		<i>Levy per cent.</i>
On the first	£5,000—i.e. from	£0 to	£5,000 0
„ next	£1,000 „ „	£5,000 „	£6,000 5
„ „	£2,000 „ „	£6,000 „	£8,000 10
„ „	£2,000 „ „	£8,000 „	£10,000 15
„ „	£5,000 „ „	£10,000 „	£15,000 20
„ „	£5,000 „ „	£15,000 „	£20,000 25
„ „	£10,000 „ „	£20,000 „	£30,000 30
„ „	£20,000 „ „	£30,000 „	£50,000 35
„ „	£50,000 „ „	£50,000 „	£100,000 40
„ „	£100,000 „ „	£100,000 „	£200,000 45
„ „	£300,000 „ „	£200,000 „	£500,000 50
„ „	£500,000 „ „	£500,000 „	£1,000,000 55
„ remainder	„ „	Above £1,000,000	60

This scale would work out as follows :—

			<i>Per cent. of his total fortune.</i>
A man worth not more than £5000	would pay	nothing.	
A man worth	£6,000	would pay	£50 or 1·2
„ „	£8,000	„ „	£250 „ 3·2
„ „	£10,000	„ „	£550 „ 5·5
„ „	£15,000	„ „	£1,550 „ 10·3
„ „	£20,000	„ „	£2,800 „ 14·0
„ „	£30,000	„ „	£5,800 „ 19·3
„ „	£50,000	„ „	£12,800 „ 25·6
„ „	£100,000	„ „	£32,800 „ 32·8
„ „	£200,000	„ „	£77,800 „ 38·9
„ „	£500,000	„ „	£227,800 „ 45·6
„ „	£1,000,000	„ „	£502,800 „ 50·3
„ „	£2,000,000	„ „	£1,102,800 „ 55·1
„ „	£3,000,000	„ „	£1,702,800 „ 56·7
„ „	£10,000,000	„ „	£5,902,800 „ 59·0

There is no special sanctity about this scale, which is chiefly useful in fixing the ideas, and is obviously open to reconsideration on points of detail. It was estimated by the authors of *Labour and the War Debt* that a Levy on the above scale would yield £3000 millions, and would be sufficient to wipe out

¹ See *Labour and the War Debt*, p. 8.

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nearly half the Debt, apart from that owed to the United States Government, and to reduce the annual charge for interest by about £150 millions. I discuss more fully below this question of the yield of the Levy.¹ But it may, I think, be laid down that a Levy yielding less than £3000 millions would be inadequate to the needs of the situation and would, indeed, hardly be worth the effort of fighting for. On the other hand, a Levy yielding much more than £4000 millions is probably not a practicable proposition from a political point of view. Our objective, therefore, should probably lie somewhere between these two limits.

All those liable to the Levy would be required, immediately after the passing of the Act of Parliament enforcing it, to make as complete a return of their wealth as possible, specifying in detail its amount, sources and value, and any mortgages, overdrafts, etc., for which deductions from liability were claimed. If the value of some items were doubtful, or took time to estimate, these could be left blank in the original return and a supplementary return could be sent in later. Those liable would be assessed provisionally on their own valuation.

The Levy would then become payable on this provisional assessment. In due course the Inland Revenue officials would gradually work through the returns and check the valuations. To quote, again, from *Labour and the War Debt*, "they have a skilled and practised staff constantly engaged on this very work in connection with the death duties. If the original valuation was found to be too low, an additional payment would be called for. If the original valuation was too high, the taxpayer's liability would be correspondingly reduced and the money returned. There would be heavy penalties

¹ See Note C, p. 75.

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for gross and deliberate undervaluation. It is not commonly realised how large is the proportion of the wealth subject to the Levy that would be quite easily valued. Government and municipal securities and shares in joint stock companies would be valued at their Stock Exchange quotations on an appointed day, or (as may be prescribed) at the average of their values over an appointed period. Money out on mortgage and on bonds, bills, notes and securities, presents no difficulty. Nor does cash in hand or on deposit at banks. Insurance policies would be valued at their surrender value which the insurance offices would be required to calculate. The official statistics prove that these and similar forms of wealth account for no less than 86 per cent. of all the personal property liable to estate duty in 1920; and they would account for much the same proportion of the total personal property liable to the Levy. The only important items difficult to value would be the business assets of private companies and partnerships and of individual traders, which amount to less than 8 per cent. of the personal property liable to estate duty, and household goods, pictures, -etc., which amount to less than 6 per cent. The valuation of landed property would be carried out in the same way as is now done every day for death duties." ¹ I shall come back in a moment to some of the points raised in this passage.

The Levy should be paid as promptly as the circumstances of individual contributors allow, for a large cut in the Debt is a matter of urgency. It might, therefore, be desirable to encourage prompt payment by offering a small discount to all those who paid their Levy liabilities in full within a year of the passing of the Act, and to impose an additional charge for interest in respect of all amounts still

¹ *Labour and the War Debt*, p. 9.

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unpaid at the end of this period. As a general rule, it might be laid down that every contributor must pay at least half his Levy within a year and the whole within two, or perhaps three, years. "The great majority of those liable to the Levy would be able, by transfer of part of their securities, to pay in full without serious difficulty. But a small minority would not be able to do so, chiefly owners of private businesses and private traders, and persons owning land or houses worth £5000 or more, but not having any other property. A special Tribunal, or Board of Referees, should be set up to consider such cases, with power to allow payment by instalments over a longer period, or even to allow the taxpayer to give the Treasury a mortgage or floating charge on his assets for any reasonable term. Such a charge would, of course, carry interest; and the position would be the same as if the Government had lent the taxpayer money with which to pay the Levy, and had charged him interest upon this loan, which would be secured upon his assets, until it was repaid. These cases would be comparatively unimportant. For not only do the assets of owners of private businesses and individual traders amount to a very small proportion of the total wealth liable to levy, but a number of these persons hold War Loan or other securities with which they could pay the whole, or a part, of their liability without damage to their businesses."¹

A few figures will show how much the difficulties both of valuation and of prompt payment have been exaggerated by many critics. The wealth on which estate duty is paid in any given year is a pretty fair sample of the total wealth on which the Levy would be paid. For the basis of valuation would be substantially the same in both cases. The following

¹ *Labour and the War Debt*, pp. 10-11.

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is a "classification of the gross capital values of the principal descriptions of property in respect of which estate duty was paid in the year ended March 31st, 1921" (see *Report of Inland Revenue Commissioners for the year ended March 31st, 1921*, pp. 22-23) :—

	<i>All Estates.</i>		<i>Estates over £5000.</i>	
	<i>Total £ millions.</i>	<i>Per-centage.</i>	<i>Total £ millions.</i>	<i>Per-centage</i>
1. British Government securities issued since 1914	47	10.9	37	11.1
2. Other Government and Municipal securities	28	6.5	24	7.2
3. Shares in Joint Stock Companies, etc.	118	27.4	106	31.9
4. Cash in the House and at the Bank	31	7.1	17	5.0
5. Money lent on Mortgages, Bonds, Bills, etc.	30	7.0	22	6.6
6. Trade Assets	26	6.0	19	5.7
7. Policies of Insurance	14	3.2	9	2.7
8. Household Goods, China, etc.	16	3.6	10	3.0
9. Land	37	8.6	31	9.3
10. House Property and Business Premises	68	15.8	42	12.7
11. Ground Rents, etc.	5	1.1	5	1.5
12. Mines, Minerals and Quarries	1	0.2	1	0.3
13. Other Personalty	8	1.9	7	2.1
14. Other Realty	2	0.5	2	0.6
Total Gross Capital Values	431	100.0	332	100.0

For our present purpose, of course, it is the composition of the estates over £5000 which is significant. As regards valuation, no serious difficulty arises

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as regards items 1, 2, 3, 4, 5 or 7, and these items together account for just over 64 per cent., or nearly two-thirds, of the whole.¹ Items 9, 10, 11 and 12, accounting for just over a further 23 per cent., present problems which are perfectly familiar to the Inland Revenue officials. The gross capital value of realty of these descriptions may easily be calculated at a specified number of years' purchase of the gross annual value, which, in turn, is given by the Income Tax Assessment under Schedule A, by the rental value of the property, if let, or by the gross rateable value, if unlet. This brings us up to 89 per cent., or practically nine-tenths, of the whole wealth liable to the Levy, as regards which valuation presents no really formidable difficulties.

Difficulties do indeed begin to arise when we come to items 6 and 8 and to some of the individual cases in the miscellaneous items 13 and 14. But, as Sir Josiah Stamp has sensibly remarked, "it will be found generally that if a tax is believed to be practicable over a considerable part of the field to which it is to be applied, and the impracticability is confined to a minor part, most States will embark upon the scheme, and by a sacrifice of logical principle at the point of difficulty and the adoption of a few conventions will satisfy the equities roughly."²

Item 8 might be dealt with, following the example of those who drafted the Italian Capital Levy Bill, by assuming that the value of household goods, etc., bears a uniform relation in all cases to the value of other forms of property. Since this item accounts for only 3 per cent. of the whole, it would be making a graceful concession to collectors and connoisseurs,

¹ Problems relating to limited interests under settlements, etc., are soluble on the lines laid down by the Board of Inland Revenue (Cmd. 594. pp. 29 ff.).

² *Fundamental Principles of Taxation*, pp. 96-97.

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while inflicting no appreciable hardship on others, to forgo all attempts to value household goods, etc.—and indeed not to require those liable to the Levy to make any reference to such forms of property in their returns—and to add 3 per cent. on this account to all individual valuations. Item 6, amounting to just under 6 per cent. of the whole, is a more serious difficulty. But it should not be forgotten that this represents the trading assets of private firms and companies only, and not of joint stock companies, for the value of the trading assets of the latter is included in the value of the shares of the companies and hence forms part of item 3, which is based on market values. It would be possible, however, to take time and trouble in making fair valuations under item 6, without seriously delaying either the general operation or the prompt payment of the Levy. For not only is this item relatively small, but many private traders, whose assets would be largely accounted for by it, would claim and secure the right to pay their Levy by instalments, so as to avoid injury to their businesses. We may, therefore, confidently conclude that the problem of valuation presents no insuperable difficulties.

Turning to the prospects of obtaining prompt payment of the Levy, we find that items 1, 2 and 4 amount to more than 23 per cent., or close on a quarter, of the whole. All the wealth represented by these items—with the exception of cash required for current expenditure and of a negligible quantity representing the securities of certain discredited foreign Governments, such as Germany, Austria and Poland, which the Treasury would rightly refuse to accept under present conditions—would be available for immediate payment, either in cash or by the transfer of securities, without any need for realisation by their owners. Further, a large part of the wealth represented by item 3, in the form of shares, and

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especially debenture shares,¹ in reputable joint stock companies, would likewise be available for immediate payment, without any need for realisation. If we assume that one-third of the shares under item 3 would be thus available, we find that about a third of the total wealth liable to the Levy would be in forms suitable for immediate payment without realisation. This is a safe minimum, for, as a matter of fact, part of the wealth represented by other items, such as item 5, might also be similarly available, and it might even be arranged, in suitable cases, for landowners to pay by the transfer of land, as is already allowed in the payment of death duties.

But if the average contributor to the Levy held one-third of his wealth in forms available for immediate payment, much more than one-third of the Levy could be paid immediately. For, according to the scale proposed, only persons worth more than £100,000 would be required to pay as much as a third of their total wealth. We may, therefore,

¹ There is no reason why even the ordinary shares of well-established concerns, with good prospects, should not be accepted in payment, if any contributor to the Levy not able to pay by other means so desired. But it may be assumed that the bulk of the industrial shares accepted would be debenture, and in some cases preference, shares. The Government, by accepting debenture and preference shares, would not, of course, acquire any rights of control over the companies concerned, for such shares carry no voting power at shareholders' meetings. Ordinary shares do, of course, carry voting power, but, if it were thought necessary to reassure "private enterprise" against "Government interference," a limit might be set to the proportion of the ordinary shares in any particular concern, which might be accepted by the National Debt Commissioners in payment of the Levy. To some minds it would be an additional argument in favour of the Levy, if it resulted in the Government obtaining control, as a large shareholder, over various business concerns. But to others this would be an argument against it. It is best not to mix up two distinct objectives. If Government control of industries is desirable, it should be sought on its merits and independently of the Levy.

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reasonably assume that a large number of the contributors could pay in full, and that most of the rest could pay a considerable proportion of their liability, within a year from the passing of the Act. And all this without the necessity for any realisation of securities on the Stock Exchange by such contributors. In addition, some immediate payments might be facilitated by realisation of securities which were unacceptable to the Treasury. But such realisation would be on a comparatively small scale, and for every seller there would be a buyer ready made, either the contributor to the Levy desiring to buy securities with which to pay, or the National Debt Commissioners, paid in cash by the contributor out of the proceeds of his sale and desiring to buy War Loan and other Government securities for cancellation. The nightmare vision of an all-round slump in the values of securities, everyone rushing to sell and no one coming forward to buy, is thus utterly baseless.¹ What may be anticipated, however, is some slight appreciation of Government securities, relatively to other securities. This, however, is equivalent to a strengthening of the credit of the British Government and would facilitate any conversion operations which might be pending.

The scheme of the Levy, as a practical proposition, has now been set out as fully as space permits. In the next section various popular objections will be considered. But it is important to emphasise here the fact that the Levy is desirable, not for its own sake, but for the sake of the financial relief which it

¹ It would be equally baseless if the Levy had to be paid in cash only, and if payment in securities was not permitted. For though, under this plan, realisations by contributors to the Levy would be on a much larger scale, so would purchases of Government securities by the National Debt Commissioners with the proceeds of the cash payments. Under this plan, however, the appreciation of Government securities relatively to other securities would be more marked.

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will make possible. In order to decide whether a particular person will gain or lose by the Levy, it is necessary to consider, not only their payments, if any, under the Levy, but the benefits which they will derive (1) from reduced taxation and (2) from increased social expenditure, after the payment of the Levy has resulted in large economies in the Debt charges. This can best be made clear by a few illustrations, in which benefits from increased social expenditure are not taken into account, as they are difficult to estimate in individual cases.

Assuming a Levy on the scale proposed, it should certainly be possible, barring out such eventualities as another war or a big fall in prices meanwhile, to lower the standard rate of income tax by 1s. 6d. in the £. That the Government of the day would decide to give so large a relief in the standard rate of income tax cannot, of course, be taken for granted. There is a good deal to be said for various alternative methods of dealing with the money. The first of these is to make a beginning in tax reduction by repealing the corporation profits tax, which, from the point of view of its effects on industry, is specially objectionable, discriminating against ordinary shareholders in joint stock companies as compared with other property owners, and discouraging, in a specially high degree, the taking of business risks. The second is to make a beginning with the taxes on sugar and tea, which press with special severity upon the poorer sections of the community, and particularly upon large families. The third is to give relief to income taxpayers, not by a reduction in the standard rate, but by an increase in the personal allowances, in the allowances for the wife and children of the taxpayer, and in the amount of taxable income assessed at half the standard rate. Relief given in this way would be substantially equal, in terms of money, for all income taxpayers with the same domestic responsibilities

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whatever the size of their incomes, whereas relief given by lowering the standard rate gives a greater monetary relief to income tax payers the greater their incomes. The fourth is to give a comparatively small relief in taxation and use the greater part of the margin, which the Levy would make available, for expanding social expenditure. The fifth is to postpone any large reduction of taxation and any large increase in social expenditure for some years after the imposition of the Levy, and to use the greater part of the margin to establish a Sinking Fund and thus make further inroads into the residue of the Debt. For, as has been remarked above, though a Sinking Fund of £50 millions, or even £100 millions, a year would be a quite inadequate provision for Debt redemption at the present time, it would be a very valuable sequel to a Levy which had already broken the back of the Debt and reduced it by nearly 50 per cent. One of the best guarantees against a repetition of the Levy will be to follow it up, without any long delay, by the establishment of an adequate Sinking Fund to carry on, more gradually, the good work of Debt redemption.¹

¹ There is a good deal to be said for earmarking the annual revenue from death duties as a Sinking Fund for Debt redemption. If this were done, it would be desirable to allow death duties to be paid, at the taxpayer's option, in any form of British Government security. This arrangement would be convenient both to the taxpayer and to the National Debt Commissioners. It would also make it a little more difficult for a subsequent Chancellor of the Exchequer, not alive to the importance of Debt redemption, to "raid the Sinking Fund" and spend the proceeds of the death duties on other things. For it would be an unpopular policy either to withdraw the right, once given, to pay in Government securities, or to sell the Government securities thus received and so depreciate their market value. How large, after the imposition of the Levy, the Sinking Fund should be, will depend not only on the amount of Debt cancelled by the Levy, but also on how much, if at all, the present total of our Debt is reduced by receipts

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As between these various alternatives, much will depend upon what Government is in power in the years immediately following the imposition of the Levy and also upon how far the present opponents of the Levy are willing, before its imposition, to modify their uncompromising attitude. My own view is that, in return for conditional acceptance of the Levy by the business world, which is now mainly hostile, and for honest co-operation in carrying it out, it would be worth while for a Labour Government to offer in advance certain guarantees of early and specific reductions in taxation. Thus, for example, it might be guaranteed that when, by the operation of the Levy, the interest on the Debt had been reduced by £70 millions a year, the standard rate of income tax should be reduced by 6d. in the £ (or, alternatively, that, when the interest had been reduced by £50 millions a year, the corporation profits tax should be repealed), and further, that, when the interest on the Debt had been reduced by another £70 millions a year, an additional shilling should come off the income tax. Such guarantees, while securing substantial advantages to business men, should not pledge the margin of relief up to the hilt, but should leave something available for other reductions in taxation, for increased social expenditure and for the establishment of a Sinking Fund. And such guarantees should not be given, except as the price of effectively disarming opposition. If the opposition refused to be disarmed, the supporters of the Levy

under the head of German Reparations or of Inter-Allied Debts, or by any voluntary remission by the United States Government of our Debt to them. My own opinion is that the hope of any appreciable receipts under any of these heads is a faded dream. We should be wise to waive our present paper claims on Germany, France, Italy and the rest, in return for a general agreement to reduce armaments and to remove existing hindrances, including high tariffs, to trade revival in Europe.

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should keep their hands free to choose, on the merits, between the various alternatives mentioned above.

Let us now look at a few typical cases, on the assumption that a Levy is imposed on the scale suggested by the Labour Party, and that the standard rate of income tax is subsequently lowered from 5s. to 3s. 6d. in the £, the present income tax allowances and reliefs and the present scale of super tax remaining unchanged.¹

Case 1.—A widow worth £6000 for the purposes of the Levy and living on an "investment income" of £300 a year. She now pays £20, 12s. 6d. in income tax, and therefore has a net income of £279, 7s. 6d. Under the Levy she would have to pay £50 which, we will suppose, is paid by handing over War Loan to this amount. Her investment income is reduced to £297, 10s. a year, but her income tax is reduced to £14, 4s. 4d. Her net income is, therefore, £283, 5s. 8d., and she is £3, 18s. 2d. a year better off.

Case 2.—A professional man with a wife and two children, earning £700 a year, and possessing £2000 of property, which brings him in an additional £100 a year, making £800 a year altogether. He now pays £82, 12s. 6d. in income tax, and his net income is, therefore, £717, 7s. 6d. Under the Levy he would have to pay nothing, since his property is worth less than £5000, and his income tax would be reduced to £57, 15s. 1d. His net income is, therefore, £742, 4s. 11d., and he is £24, 17s. 5d. a year better off.

Case 3.—A business man with a wife and three young children, possessing £10,000 "net wealth" liable to the Levy, bringing him in an "investment income" of £700 a year, and having also an "earned

¹ This last point is perhaps an excessive concession, which ought not to be made to super tax payers, whose relief, as a result of it, would be much greater than appears at first sight. See Note D, p. 84.

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income" of £1000 a year, making £1700 a year altogether. He now pays £293, 7s. 6d. in income tax, and his net income is, therefore, £1406, 12s. 6d. Under the Levy he would have to pay £550, which, we will suppose, is paid by handing over War Loan to that amount. His investment income is then reduced to £663, 10s., and his total income to £1663, 10s., but his income tax would be reduced to £200, 11s. His net income is, therefore, £1462, 19s., and he is £56, 6s. 4d. a year better off.

Case 4.—An unmarried man with no earned income, but possessing £50,000 "net wealth" liable to the Levy, bringing him in an "investment income" of £3000 a year. He now pays £688, 2s. 6d. in income tax and £87, 10s. in super tax. His net income is, therefore, £2224, 7s. 6d. Under the Levy he would have to pay £12,800, which, we will suppose, is paid by a transfer of War Loan and other securities. His "net wealth" is reduced to £37,200 and his "investment income" to £2232 a year. But his income tax would be reduced to £347, 5s. 9d. and his super tax to £17, 8s. His net income is, therefore, £1867, 6s. 3d., and he is £357, 1s. 3d. a year worse off. But he is far from being ruined.

Case 5.—A retired war-profiteer, whose wife is dead and whose children are grown up, possessing £1,000,000 "net wealth" liable to the Levy, bringing him in an "investment income" of £50,000 a year and having also an "earned income" of £1000 a year for attending directors' meetings, etc. On his total income of £51,000 a year he now pays £12,663, 3s. 6d. in income tax and £13,012, 10s. in super tax. His net income is, therefore, £25,324, 7s. 6d. Under the Levy he would have to pay £502,800, which, we will suppose, is paid by the transfer of War Loan and other securities. His net wealth is reduced to £497,200, his "investment income" to £24,660, and his total income, unless he takes steps

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to increase his "earned income," to £25,660. On this he would pay £4447, 9s. 7d. in income tax and £5619 in super tax. His net income is, therefore, £15,593, 10s. 5d., and he is £9730, 17s. 1d. a year worse off. But he can still afford to live very comfortably, and has the satisfaction of having contributed part of his war profits, at the size of which he was, perhaps, secretly ashamed, to lighten the burdens of his fellows.

But we must not think of the financial effects of the Levy as limited to income tax reduction. Over and above the reduction just proposed, a considerable sum should be available, after the Levy has been put in operation, for other purposes.¹ It is obviously impossible to discuss in detail now the problem of priorities which will then arise. But it may well turn out to be justifiable to bring the annual Sinking Fund into operation gradually over a period of years. This would make possible the effective launching, during the first few years after the bulk of the Levy had been collected, of some of the schemes for housing, education and public health, which have already been too long delayed. It cannot be too often repeated that such schemes, if wisely executed, would not only add greatly to human happiness and bring the possibility of a civilised existence within the reach of many who have hitherto been deprived of it, but would also strengthen our productive power by making a real addition to the health, efficiency and knowledge of our workers.

¹ See Note D, pp. 84-85.

VI

SOME OBJECTIONS TO THE CAPITAL LEVY

A NUMBER of the possible objections to the Levy have been dealt with incidentally in the last section. I shall now pursue some of these, and some others, a little further.

We need not waste time over sheer misunderstandings or deliberate perversions, such as the statement that the Levy would mean "the confiscation of all savings," or that it is proposed to take away everyone's wealth in excess of £5000, or, better still, that it is proposed to go on doing this year after year. Nor need we linger over such windy words as those of Lord Derby that "the Capital Levy is nothing but the thin end of the wedge of Communism, and the logical conclusion of such a policy would be to reduce this country to the same conditions as Russia."¹

But there is another objection, which had best be answered early. It is often said that this question of a Levy is one on which business men are entitled to speak as experts, and that, since the great mass of business opinion is hostile to the proposal, it is obviously unsound. As a matter of fact, that section of business opinion, which has taken the trouble to grasp exactly what is proposed, is not so overwhelmingly hostile as is commonly imagined, and time and further reflection may yet work wonders.²

¹ In an election speech reported in the *Times* of November 7th, 1922.

² Mr W. L. Hichens, for example, the Chairman of Cammell, Laird & Co., expressed himself as follows in an interview published in the *Observer* of February 8th, 1920:—
"A capital tax will tap large sources of wealth which to-day

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But, however this may be, there is a bubble to be pricked. Professor Pigou pricks it gently in these words: "It is true that a good business man is an expert—in his own business. . . . But problems of taxation and national finance generally are not the

escape free. A £300,000 pearl necklace is an obvious example. There is a strong feeling in the Labour world that capital as such ought to bear a greater share of the war burden. And it is, I think, of great importance, in view of the present industrial unrest, that capital should shoulder its responsibilities in the most open and unmistakable way. It is obvious, of course, that there are many difficulties in the way of a capital levy. It is urged, to begin with, that it would form a dangerous precedent, which might be seized upon by a Labour Government of the future and repeated with disastrous consequences. It is never a very wise plan to avoid doing what is right at the moment for fear that somebody else will make your action a precedent for doing what is wrong at a later date. Moreover, I think it argues a distrust of any future Labour Government, which is quite unjustified. The Labour leaders of to-day have shown that they possess at least as much common sense, patriotism, and vision as other politicians, and I see no reason to suppose that they would adopt a financial policy the results of which would be disastrous. For a capital levy is an extreme measure, justified only by the emergency of the greatest war in history. To repeat the experiment in normal times would be disastrous. . . . As to the argument that a capital levy would involve the realisation of shares and property of all kinds, this would not be necessary if the Government were prepared to accept payment in any kind of marketable security held by the individual at the date when the tax became law. . . . It is also urged that a capital levy would reduce the amount of money available for industry. It is obvious that such a tax would not in any way affect the amount of wealth in the country; it would involve nothing more than a redistribution. Most of the difficulties which have been put forward are based on the supposed opposition of capitalists themselves. Of course, if capitalists as a class use all their ingenuity to raise objections and make difficulties, the task will not be easy. But this is true of all legislation. On the other hand, with a sincere desire on the part of everybody to carry the measure through successfully, I believe the difficulties can be overcome. . . . The fear that a capital levy would discourage saving is, in my view, unwarranted. I believe it would have precisely the opposite effect. A high

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boot manufacturer's or the shipbuilder's or the banker's business. No doubt some bootmakers and shipbuilders and bankers have made a special study of them. If so, and if they are able men, their judgment is valuable. But it is valuable, just as the judgment of a doctor or a lawyer might be, not because they are bootmakers or shipbuilders or bankers, but because of the study they have made."¹ The experts in such a matter mainly consist, not of business men as such, but of professional economists and revenue officials. If further proof is required that some business men are very far from being experts on public finance, one need not look beyond the spate of letters to the *Times* during the recent election campaign. I shall have occasion to make some quotations later, but, in face of some of these pontifical utterances, I feel sympathy with him who said, "Ye take too much upon you, ye sons of Aaron!"

As to the professional economists, only a few have spoken their minds publicly on the Levy, but, of those who have spoken, more are in favour of the principle than are against it.² As to the revenue

income tax does far more, in my opinion, to discourage saving than any other form of taxation. One continually hears it said that it is not worth while saving when half the interest on money saved goes in taxation, and that it is better in such circumstances to spend one's money on a diamond necklace or some other form of luxury. If as a result of a capital levy the income tax should be reduced—and I think this should be an essential feature of our financial policy—the inducement to save would, I think, be increased."

¹ *A Capital Levy and a Levy on War Wealth*, pp. 60-61.

² Professor Pigeon, Mr J. M. Keynes and Mr J. A. Hobson have declared for a Levy, though not necessarily, of course, for the details of the Labour Party's proposals. Sir Josiah Stamp and Professor Edgeworth recognise that there are strong arguments on both sides. Only Professor W. R. Scott, so far as I am aware, is unqualifiedly against a Levy. I forbear to call, as witnesses in favour of the Levy, those economists who are also Labour Party politicians, such as Mr Sidney Webb and Mr Pethick Lawrence.

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experts, the Board of Inland Revenue, in their memorandum of 1919 "on the practicability of levying a Duty on War-Time Wealth," stated that "a scheme conforming to the general lines indicated in the following paragraphs . . . would, in the Board's judgment, be effective, although the effort transcends in difficulty any previous effort of taxation in this country." They added that "the difficulty is much increased" when "one of two contrasted valuations made at the present time has to be directed to a pre-war date." This last difficulty would not arise in the case of a Capital Levy. We have here, therefore, a strong piece of evidence in favour of the practicability of the Levy from the administrative point of view.

I propose now to pass in review some of the arguments which have recently been used against the Levy.

"The Levy would be confiscation." What is "confiscation"? Why is the Levy, to be paid once and for all, confiscation, any more than death duties, to be paid once and for all, or income tax, to be paid year after year? This is a purely verbal point on which Mr Bonar Law and Mr Asquith are, perhaps, as good authorities as anyone else. Speaking of the Levy in the House of Commons on January 29th, 1918, Mr Bonar Law said, "There is nothing of confiscation if such a thing were done." Speaking at Paisley on January 27th, 1920, Mr Asquith said, "Taxation must not be confiscatory, but there is nothing in principle to differentiate a tax imposed upon accumulated wealth from a tax imposed upon wealth as it comes in, what we commonly call the income tax."¹

"It would be impossible to raise the cash." I have already pointed out that the great bulk of the

¹ Both these speeches are quoted more fully in Note E.

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Levy would be paid, not in cash, but by the transfer of securities to the National Debt Commissioners.

"In order to pay the Levy, holders of stocks and shares would have to realise a portion of their holdings. There would be an enormous number of sellers, but where would the buyers be found? . . . I very much question whether it would be possible to sell at all in most cases. The only potential buyers would be Americans."¹ The answer to the last objection applies equally to this. There need be comparatively few sales of securities and no general fall in values, as the National Debt Commissioners, in so far as they were being paid in cash, would be buying securities for cancellation. In so far as they took place at all, both sets of sales and purchases would take place gradually.

"The Government would have to realise its miscellaneous receipts from the Levy. . . . In doing so, values would depreciate to the extent of 25 per cent. or more. . . . The receivers of the amount (of money spent by the National Debt Commissioners in purchasing War Loan, etc., in the open market) could only become effective buyers after they had been repaid, and after the forced sales by the Government had taken place."² There would be no need for "forced sales by the Government." The National Debt Commissioners could hold "their miscellaneous receipts," draw interest on them, and apply this to the purchase of War Loan, etc., for as long a period as was desirable. They need only realise gradually, and when market conditions were favourable. It is, of course, true that the full effect of the Levy in reducing the amount of the Debt would only be felt when all the "miscellaneous receipts" had been realised, but, in the long run, the amount of Debt cancelled would be greater if

¹ Mr S. Burdett-Coutts in the *Times* of November 6th, 1922.

² Mr H. Gardner in the *Times* of November 11th, 1922.

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some cancellation had taken place out of the proceeds of interest on securities, as well as out of the proceeds of the subsequent sale of securities. Here, again, sales and purchases would be gradual, and the idea that there would be a great fall in values is baseless.

"The Levy would . . . destroy the country's earning power by destroying the capital, which is one necessary foundation of that earning power."¹

"Industry is built up on the foundation of that portion of wealth called capital. If the foundation is taken away, what becomes of the superstructure?"²

Real capital, on which the productivity of industry depends, consists of such things as land, buildings, machinery, ships, railway engines, stocks of raw materials and other commodities. No real capital would be "destroyed," "taken away," or "withdrawn from industry" by the Levy. All that would happen, in the first stage, would be that the ownership of some of these things would change hands through the transfer of shares. But subsequently the lightening of taxation would make people more able and more willing to increase the available supply of these things, and so to increase the productivity of industry.

"Companies would be unable to carry on their operations, especially if their reserves were depleted." Companies would not be liable to the Levy at all, and therefore their reserves would not be touched. Their shareholders would be liable, if their total net wealth exceeded £5000, and they would pay in some cases by transferring some of their shares. But such a change of ownership of some of its shares would not affect the operations of the company any more than the changes which continually take place at present through death or sale. The case of individuals liable to the Levy, the bulk of whose

¹ Mr W. W. Paine in the *Times* of November 1st, 1922.

² Sir Alfred Yarrow in the *Times* of November 8th, 1922.

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capital is invested in private firms or companies, has been dealt with above. They would be allowed, if they could show that their businesses would otherwise be injured and unemployment caused, to pay their Levy by instalments. In many such cases they would probably find that, before payment was completed, they would be gaining more in reduction of income tax than they would be paying in instalments of the Levy.

"If the owners of private businesses were liable, but joint stock companies were not liable, the former would form themselves into joint stock companies and so escape liability."¹ This is a complete delusion. No company as such, whether public or private, would be liable to the Levy, but every individual whose net wealth, whatever its form, exceeded £5000 would be liable. No change of form, such as is suggested in this argument, could result in any sufficiently wealthy individual escaping his liability.

"If Labour decided to conscript, say, 20 per cent. of capital, it would mean that the Insurance Companies could not meet their claims in full."² Insurance Companies would not be liable to the Levy, though their shareholders and clients whose net wealth exceeded £5000 would be liable.

"The Levy would cause a disastrous inflation" and, alternatively, "the Levy would cause a disastrous deflation." Obviously both these arguments cannot be true, even though each is supported by the authority of practical business men. As a matter of fact, neither is true.

¹ I am told, though I find it difficult to believe, that this argument was used in election speeches by Sir John Simon, who had begun by saying that co-operative societies would be liable to the Levy, but had been forced to retreat from this position when it was pointed out to him that these societies, being public companies, would not, as such, be liable.

² Mr J. G. W. Rollason in the *Times* of November 15th, 1922.

THE CAPITAL LEVY EXPLAINED

The inflation argument has been put thus: "I am sorry I do not know Mr Clynes. I assume that he is groping about honestly, and believes that £3000 millions could be advantageously advanced by the banks as a burden to their trading customers, who would transfer the credit to the Government and the Government could redeem £3000 millions of War Debt. I doubt whether the disaster following on a £3000 million inflation would not be so bad as to be incalculable. . . . There has been a capital levy going on almost all over Europe for the past four years. . . . One cannot invent such a simple and effective capital levy machine as abuse of the printing press. Mr Clynes had better consider it. He can see the results most easily in Austria and Russia."¹ The imaginary process here described bears no resemblance to what is actually proposed. It is not proposed that the Levy should be paid, to any appreciable extent, out of bank advances, nor that the printing press should be further "abused."² If a business man could prove that he was unable to pay his Levy promptly, unless he borrowed from his bank in order to do so, this would go far to establish his right to pay by instalments.

The deflation argument has been put thus: "I need not enlarge upon the business consequences of a sudden deflation of £3000 millions of War Loan securities."³ The lack of enlargement leaves us in

¹ Mr E. M. Harvey in the *Times* of November 8th, 1922.

² It was much abused by the British Government during and after the war, chiefly because too large a part of our national expenditure was met by borrowing and too small a part by taxation. For a further discussion of this point, see my *Public Finance*, Ch. XV.

³ Mr W. W. Paine in the *Times* of November 1st, 1922. It would have been more useful if this expert had enlarged a little upon this point instead of padding out his letter with such pompous and self-satisfied verbosity as the following:—"The extreme—I had almost said fantastic—nature of these proposals

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some doubt as to the precise meaning of this pronouncement, but apparently it is intended to signify that "credit," in the form of bank loans, will be reduced by £3000 millions. Why? Even if the whole of the £3000 millions of Debt securities, which it is proposed to redeem, were being used by business men as collateral for bank loans, it would not be true, for reasons which will be given in a minute. But, in fact, a large part of the Debt securities are held, not as collateral for loans, but as an ordinary source of income by persons, many of whom are not engaged in trade. Just as the Plymouth Brethren, according to a well-known story, believed that they were the only people in Heaven, so some business men seem to believe that they are the only people who hold War Loan and that its only use is to secure overdrafts.

The deflation argument has also been put thus: "Some of our correspondents quote the opinion of the earlier economists that the redemption of the

in itself constitutes the danger, which I have already experienced, that few people can be induced to take them seriously. . . . An exception from the general point of view is recorded in the letter of Professor Pigou. The learned professor not only takes them seriously, but 'is prepared to accept a large part of these constructive proposals, . . . I have always felt that the study of the theory of political economy, divorced from knowledge of its practical application, is a blameless, but not particularly helpful, pursuit, and I confess that view is confirmed by a perusal of the professor's letter. A little more practical common sense, with a little more knowledge and experience of the actual conditions of trade and business, would, perhaps, lead to very different conclusions. The disturbance and utter confusion which must attend any such operation will absolutely paralyse trade . . . and we shall see unemployment and misery among all classes such as we have never yet witnessed. . . . When these evils come, as they surely will, if ever such proposals as these are carried into effect, our Labour leaders may learn wisdom, as it would seem that even Lenin and Trotsky are now beginning to do; but . . . it may then be too late."

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National Debt by a levy on capital would not destroy capital but would merely involve a transfer of it. . . . But a deflation of the national balance sheet by a sum of approximately £3000 millions . . . would involve a violent disturbance of values . . . while the borrowing powers of those who carry on the trade of the country would be reduced, owing to the reduction of their capital. . . . The trade of this country, as of every other civilised country, is financed by borrowed money, and any reduction of capital would impair a person's borrowing capacity."¹ The points about the "disturbance of values" and the "reduction of capital" have already been dealt with. As regards the alleged reduction of traders' "borrowing capacity," it is, of course, true that the Levy would reduce, for the time being at any rate, the amount of "good collateral" in existence. But it is not the amount of "good collateral" in existence which determines how much banks will lend. It is the "lending capacity" of the banks, which depends upon quite other considerations, the most important of which is the amount of their deposits. Thus it is sometimes a matter of complaint in business circles that banks refuse to lend as much as business men demand, even though "good collateral" is offered up to the full amount demanded. There is, however, nothing magical about a bank. Like an individual, it cannot actually lend, nor safely promise to lend, more than it has got. Except in so far as their customers draw on their accounts in order to

¹ The City Editor of the *Times* on November 9th, 1922, under the heading of "The Capital Levy Fallacy," in reply to a very sensible letter from Mr A. A. Milne, published on the same date, arguing that the Levy would not destroy but "will only redistribute capital." Even to "the earlier economists" truths may sometimes have been revealed which have remained hidden from some modern City Editors.

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make cash payments, the collection of the Levy will not directly affect the lending capacity of the banks, and indeed, when account is taken of the effect of subsequent reductions of taxation, it may well increase it by swelling deposits. There is, therefore, no reason to suppose that the effect of the Levy would be to reduce, either seriously or permanently, the total of bank loans.¹ It might, indeed, cause a redistribution of loans as between different borrowers, but this is a matter for the banks to decide. They will presumably lend to those who, in their opinion, can most safely be entrusted with funds, and the amount of "good collateral," which is of course not limited to British Government securities, still in existence after the Levy will provide ample backing for all loans within their lending capacity.

The last argument is sometimes put, and may be countered, rather differently. "The National Debt is in itself a trading capital asset. Those mulcted would be compelled to restrict their businesses."² It is true that War Loan is an asset to its holders, but it is a liability to those who have to pay taxes in order to provide the interest. Those who stress the first fact and lose sight of the second would presumably rejoice to see a National Debt twice, or even twenty times, as great as that which oppresses us now. For this would mean a great increase in trading assets, and, according to the last argument quoted, a great extension of businesses. But the case for the Levy is that it is worth while to reduce

¹ If no steps were taken to prevent it, temporary difficulties might indeed arise during the period when contributors to the Levy had drawn heavily on their banking accounts and when the funds drawn out had not yet returned to the banks, as in due course the bulk of them would. But it would be a simple matter to meet such difficulties by authorising a temporary, and strictly limited, inflation.

² Sir John Latta in the *Times* of November 7th, 1922.

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such assets, in order, among other things, to reduce the corresponding liabilities.

"The bulk of Government securities is not held by people who would be subject to the Levy, but by banks, insurance companies and investment corporations,"¹ who would be unwilling to sell, and therefore the Government would not be able to redeem the Debt. The first part of this statement is inconsistent with the statement that the bulk of Government securities is held by business men and used as collateral for bank loans. As a matter of fact, we have no accurate information on the distribution of the ownership of such securities. But, however this may be, it is unreasonable to suppose that banks, insurance companies and investment corporations would not be tempted by even a slight appreciation to sell part of their holdings of such securities and to reinvest at a profit in other gilt-edged stocks. Moreover, the Government has the right to redeem its securities, as they mature, regardless of the wishes of their holders.²

"It is proposed to take money which is now earning 8 to 12 per cent., and to apply the proceeds of a forced liquidation to paying off a debt which bears interest at 5 per cent., less tax. Surely any person who has acquired a knowledge of simple arithmetic should know that this is bad business."³ And again, "in private hands the proportion of the £3000 millions at present employed in trade would be producing at least 15 per cent. per annum, and it would be an underestimate if one were to say that, in private hands, the whole of the £3000 millions would be yielding on an average 10 per cent. taxable revenue."⁴ To begin with two minor

¹ Mr H. Gardner in the *Times* of November 11th, 1922.

² For dates of maturities, see Note B, p. 73.

³ Sir Graham Bower in the *Times* of November 8th, 1922.

⁴ Mr E. L. Franklin in the *Times* of November 6th, 1922.

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points in the first passage quoted, it has already been pointed out that no "forced liquidation" is involved, and it is clearly an error to compare "5 per cent. less tax," with "8 to 12 per cent.," without mention of a tax. But there are some major points. If the facts are as stated, and the argument is sound, the two gentlemen quoted would also presumably welcome a large increase in the National Debt, so that more 5 per cent. Government securities may be "employed in trade" and "earn" the higher rates of interest alleged. These rates of interest, however, and especially the "at least 15 per cent.," are clearly an exaggeration in the present state of trade, when it is common for even well-established concerns to pass their dividends altogether. But the logical flaw in the argument does not depend on what the average rate of profit at any particular time may happen to be. It is not "money" which "earns" dividends, but real capital intelligently handled by human beings. No existing real capital will be "taken" by the Levy or prevented from continuing to earn dividends. A change in the ownership of some of a company's shares will not affect its ability to pay dividends, which will, indeed, be subsequently increased by the reduction of annual taxation.

"The Levy will not really be paid by those on whom it is imposed, but will be passed on to consumers in higher prices of commodities." In so far as this is true, the Levy will indeed succeed in its main object of reducing the Debt, but it will be collected from a larger body of contributors, and with less regard to individual "ability to pay" than, for instance, in the Labour Party's proposed scale. To some people, who think that this scale is too steeply graduated, this would be an argument in favour of the Levy, rather than against it. But, in fact, the great majority of those on whom the

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Levy would be imposed would have no power to pass it on, any more than they have the power to pass on their income tax. Passive holders of securities, who paid by transferring them, would obviously have no such power. Some business men in a position to make monopoly profits, but not previously exploiting this power to the full, might succeed in passing on part of the Levy to their customers. But such cases are not likely to be very numerous or important. Most men aim at making the largest profits they can, Levy or no Levy.

"As Mr Clynes and his friends agree with the leaders of other political parties that the present rate of taxation is too high, it is obviously absurd to suppose that our industrial difficulties will be lightened by increased taxation, whether in the form of a tax on capital values or otherwise."¹ "The fundamental error is to regard any tax, whether on capital or on income, as a means to assist the nation to recuperate from the effects of the war. A tax on capital does not produce new wealth."² These, too, are one-eyed criticisms. The Levy is advocated, not for its own sake, but in order, among other things, to enable annual taxation to be reduced. It will not, of course, itself "produce new wealth," but it will be the means of lightening the present handicaps on the production of new wealth.

"If the National Debt were paid off, where would the public find an equally safe investment?"³ It is not part of the taxpayers' business to provide "the public" with a safe investment. But even if the whole National Debt were paid off, which is too much to hope for at present, there would remain,

¹ Mr C. R. V. Coutts in the *Times* of November 13th, 1922.

² Mr C. Turnor in the *Times* of November 7th, 1922.

³ Mr E. M. Rodocanachi in the *Times* of November 11th, 1922.

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of course, a very wide range of investments, including all the Trustee securities and many more, which are hardly less safe. On the other hand, if no effort is made to reduce the Debt, and if, as a result, a strong popular demand arises for a reduction of the rate of interest or for complete repudiation, it will soon cease to be considered a safe investment any longer. Further, it is not desirable in the public interest that investors should play too much for safety. Economic progress is only possible if investors are prepared to take certain risks.¹

"The Levy could not lead to reduced annual taxation, because, although the interest charge on the Debt would be reduced, the yield of existing taxes would also be reduced through the cancellation of War Loan on which income tax, super tax and death duties are now paid." It is true that the yield of existing taxes would be reduced, but the loss of revenue under this head would be less than the reduction of expenditure in respect of interest on the Debt. The Levy would, therefore, permit of reduced annual taxation. This point is considered more fully in Note D below. But we may put it in this way. Suppose £100 of 5 per cent. War Loan is surrendered in payment of the Levy and cancelled. Then the interest charge on the Debt is reduced by £5 a year. But the taxation on the previous holder of this War Loan will be reduced by less than £5 a year, unless we are to assume that he was previously paying annual taxation at the rate of 20s. in the £ on that part of his income which he has surrendered. And this assumption is not true, even of the richest taxpayer.

¹ As a matter of fact, gilt-edged securities have turned out to be a good deal less "safe," even in this country, than good industrials, while in countries where currency inflation has been practised on a really big scale, such "safe investments" have become practically worthless.

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“The Levy would drive capital abroad and those liable to it would thus be able to evade their liability.” This argument has been put thus: “Mr Clynes’ letter exposes his financial incapacity. . . . Much of the apparent wealth of this country could by a stroke of the pen be removed beyond the tax-gatherer’s grasp. Take as outstanding examples—but there are thousands—what proportion (*sic*) of the large profits earned by Messrs Coats, the Shell Transport and Trading Company and Messrs Brunner, Mond & Co. is within the control of the British Empire?”¹ No person resident in this country and liable to pay the Levy would escape liability by exporting his capital. He would be assessed on his total net wealth, whether situated at home or abroad. Legal liability could only be evaded if, before the imposition of the Levy, the owner emigrated along with his capital. This is not likely to happen in many cases, and existing real capital, in the form of land, factories, machinery, etc., cannot emigrate. It is possible that some unpatriotic and dishonest people will try to dodge the Levy by deliberately telling lies about the amount of their foreign investments. Such conduct, if detected, should be punished by a heavy fine, supplemented by imprisonment. And the difficulty of escaping detection will be considerable, as the Inland Revenue officials will be able to prepare dossiers of all suspected culprits on the basis of income tax and death duty returns already in their possession. If widespread attempts to dodge the Levy are threatened, it may be desirable to strengthen the hands of these officials by giving them increased powers of inspecting banking accounts, etc. It may be repeated that Messrs Coats and the other firms mentioned would not, as such, be liable to the Levy at all, and that their reserves and undistributed profits would not

¹ Sir John Latta in the *Times* of November 7th, 1922.

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be affected, though their richer shareholders would of course be liable.

"The Levy will discourage saving," or, in more melodramatic language, "the cause of thrift will receive its death blow."¹ This, again, is a one-eyed criticism, no account being taken of the reduction in annual taxation, which the Levy will make possible. It is heavy annual taxation, and the dreary prospect of its indefinite continuance, which at present discourages saving far more seriously than the imposition of the Levy, once and for all, would do.²

"The Levy will give a severe shock to business confidence," or, again, in more melodramatic language, "credit will be shattered."³ How far there is any substance in this argument depends largely on the conduct of business men themselves. If they are unalterably determined to follow the example of the Gadarene swine, it may be difficult to prevent some of them from drowning themselves and causing much incidental, even if only temporary, damage to others. But, if it can be proved to the satisfaction of the public and of the business community that the Levy affords no rational ground for panic or the loss of business confidence, then these things will not happen. To prove this is one of my objects in writing this little book. Perhaps, most business men being what they are, the "shock to confidence" would be most easily avoided if a Conservative Government carried through the Levy. To this interesting possibility I shall return in the next section.

"The Levy will cause increased unemployment." This argument is closely connected with the last. If the "shock to confidence" can be avoided, there is no reason why unemployment should be increased.

¹ Mr W. W. Paine in the *Times* of November 1st, 1922.

² As Mr Hichens points out in the interview quoted on pp. 47-49.

³ Mr W. W. Paine once more in the same letter.

THE CAPITAL LEVY EXPLAINED

In some cases unemployment might be caused among the employees of private businesses if the Levy had to be paid at once and in full. It is precisely in order to prevent this that payment by instalments is provided for in these cases. It is true that the collection of the Levy would result in a certain redistribution of capital and purchasing power as between different individuals and that, as a result, a certain number of people, previously employed by the richer contributors to the Levy, would lose their jobs. But there would be a roughly corresponding increase in the demand for labour elsewhere and in the number of people, previously unemployed, who would find jobs. For, roughly, corresponding to every pound by which the income of a contributor to the Levy would be reduced, the income of someone else, whether a taxpayer or a beneficiary of public expenditure, would be increased by a pound. Further, if we look beyond the collection of the Levy to the subsequent effects of the reduction of annual taxation and of the increase in socially desirable public expenditure, we are entitled to expect an improvement in trade and a decrease in unemployment.

"The present is not a good time to impose the Levy, owing to trade depression." The argument is that, trade being bad, the Levy will make it worse. It might with equal plausibility be argued that, if trade were good, the Levy would make it less good, and that, if trade were neither very good nor very bad, the Levy would make it bad. So that it would never be "a good time to impose the Levy." All such arguments assume that the Levy would be bad for trade. For reasons given above, I do not believe this, but I do believe that, until we have cleared off a large part of the Debt, trade will be permanently worse than would otherwise be the case. A sick man, who needs a dose of medicine, is not wise to

SOME OBJECTIONS TO CAPITAL LEVY

keep on taking his own temperature instead of the medicine. I have, indeed, remarked elsewhere about the Levy that "it is probably too much to hope that its imposition would not produce some temporary check to business confidence. It would, therefore, be well to time its imposition so as to make it coincide with an incipient trade boom and thus to exercise a wholesome brake upon the ill-founded optimism, which is apt to prevail during such periods. For one of the surest ways of curbing trade slumps is to curb the trade booms which precede them."¹ But this is a counsel of economic perfection, which it may be impossible to act up to in the rough and tumble of practical politics. For in the House of Commons things must be done when there is a majority to do them, or not at all. It is also true that if, for any reason, the price level were to rise or fall sharply in the period during which, after the individual assessments had been made, the bulk of the Levy was being collected, considerable injustice would result as between contributors, for some of these would get off much more lightly than was intended, while others might be ruined. This would, of course, be only a particular instance of the injustice which always results from violent fluctuations of values. But it is specially necessary that the Government should take steps to keep the price level fairly steady during this critical period. This could, and should, be done by deliberate manipulation of the bank rate and of the currency note issue.

"There is no guarantee that the Levy, if once made, would not be repeated." There can, in the nature of the case, be no such guarantee. If the Levy were once made, and if it were subsequently proposed to repeat it, that proposal would have to be considered on its merits in the light of the subsequent

¹ *Public Finance*, p. 206.

THE CAPITAL LEVY EXPLAINED

situation. But the present proposal is to make it once only, for a special purpose. Nor is there any guarantee that, if it is not made next year, it will not be made within the next five years. Business men may dislike the prospect of "living under the shadow of a possible future Levy," and may feel that this shadow would not vanish if they submitted to the Levy now. But they are living at present under such a shadow, which certainly will not vanish so long as they resist the Levy. For the continuance of Public Debt on the present scale is a standing provocation.

"There is no guarantee that, after the Levy had been made, income tax would be reduced." I have suggested above that supporters of the Levy would be well advised to give such a guarantee, provided that influential opponents would thereby be won over. But if they would not, such a guarantee would serve no good purpose. Even without a guarantee, however, the odds are heavily in favour of such a reduction being made.

"There is no guarantee that the proceeds of the Levy would be used for Debt Redemption at all." Such a guarantee could, and should, be given in the Act of Parliament enforcing the Levy. All that would be necessary would be a clause providing that all the proceeds of the Levy should be handed over to the National Debt Commissioners, to be used exclusively for the purpose of Debt redemption.

VII

FUTURE PROSPECTS

I HAVE nothing more to add, within the present limits of my space, to the general discussion of this problem. The balance of argument is, in my opinion, very heavily in favour of the Levy. All the alternative methods of dealing with the Debt, that great brute fact which cannot be exorcised by playing ostrich, appear to me both hopeless and dangerous. Most hopeless of all, and in the long run most dangerous, is the present policy of sitting still and doing nothing.

The Capital Levy will not be a thing delightful in itself, except, perhaps, for a few officials, to whom it will give an exceptional chance to show their administrative skill. Those who will have to pay it will simply be making the best of a bad job. It is true, but it has no bearing on the issue now, that if the British Government had taxed more and had borrowed and inflated less during the war, our present Debt would have been smaller and more manageable. Also that, even after the unsound finance of the war period, we missed a golden opportunity of imposing a Capital Levy, with or without a special Levy on War Wealth, immediately after the Armistice. For then, when the glow of military victory had not yet passed into the gloom of economic defeat, many, who have since grown timid and distrustful of their neighbours, still felt bold and generous. If these things had been done then, we should probably have been spared the extremities both of the unhealthy

THE CAPITAL LEVY EXPLAINED

post-Armistice boom and of the subsequent depression, which still holds us in its grip. But these things were not done, and no regrets are helpful now. We shall continue to be faced by this problem until we find the courage to solve it, as a man with a rotten tooth goes on suffering from toothache, and consequent ill-health, until he can bring himself to have it out.

Given the present alignment of political parties in this country, it may seem that we must wait for a Labour Government and a Labour majority in Parliament to drive the Levy through, in the face of fierce opposition and attempts at "sabotage" by wealthy men, fighting desperately with their backs to the wall against those whom they will accuse of seeking to despoil them and to ruin us all. This may, indeed, prove to be the necessary and destined solution. But it is not a happy prospect, nor is it the only possible solution. It is much to be hoped that a settlement will come more easily, with less waste of political energy and less bad blood. Settlements by consent are better than settlements by conflict, and more in accord with British political good sense.

We must not rashly assume that the present opposition to the Levy is unalterable. Strange tides of opinion and of prejudice ebb and flow in the minds of men and, especially in politics, the whirligig of time brings many dramatic revenges, and sometimes brings them swiftly. Mr Bonar Law and other Unionist leaders openly encouraging armed rebellion and military indiscipline in defence of the Union in 1914 and by constitutional means abolishing the Union in 1922! Mr Lloyd George's small beginnings with graduated income tax and super tax in 1909, denounced by Lord Rosebery as "the end of all," and now multiplied many times over and accepted by Conservative opinion as infinitely preferable to

FUTURE PROSPECTS

a Capital Levy, which would be the surest means of lowering the income tax! The mad estimates of German Reparations in 1918, the mad attempts to realise them, and the general acceptance in 1922, even in the City of London, of simple truths which, when first enunciated by Mr J. M. Keynes and by members of the Labour Party, were hysterically hooted as "Pro-German!"

With these recent examples before our eyes, we need not yet despair of wholesale conversions to the Levy. "It is unfortunate, I think," says a letter-writer to the *Times*, who is obviously a Conservative, "that the Conservative Party have adopted so definitely a hostile attitude to the project of a Capital Levy. It is by no means certain that circumstances will not force them, in a very few years, to some such expedient. For some reasons it would be preferable that a Levy should be introduced by a Conservative, rather than a Labour, administration. . . . The good will of the banking and financial interests would be almost necessary to its success, and this would be more likely to be at the disposal of Mr Bonar Law than of Mr Clynes. Also a Capital Levy in Conservative hands would be accompanied by a large reduction of income and super tax, and this might not be the case if a Labour Government carried the proposal."¹ This point of view may quite conceivably win increasing favour. Another letter to the *Times* a few days later contained the suggestion that, if only the name were changed, the thing itself would lose most of its terrors, and the title "War Debt Redemption Levy" was proposed, apparently without knowledge of the fact that this is the title actually adopted by the Labour Party in its official statement of policy.² It is also

¹ Mr H. Willis in the *Times* of November 11th, 1922.

² *Labour and the War Debt*, p. 7. See also the following paragraph from the Labour Party's election manifesto published

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remarkable that several prominent politicians, both Conservative and Liberal, who in the recent election campaign expressed violent hostility to the Levy, had previously expressed quite different and much more reasonable opinions. To these earlier opinions (their own statements of which are given below in Note E), it will not be very difficult for them to return.

But speculations of this kind, though they have a certain fascination for the politician, are of no great concern to the economist. It is primarily as an economist that I have written this book, and it is on its economic merits that I recommend the Capital Levy to my readers.

in the Press on October 26th, 1922 :—" Labour recognises the urgent need of lifting from the trade and industry of the country the deadweight burden of the National Debt. It, therefore, proposes the creation of a War Debt Redemption Fund, by a special graduated Levy on fortunes exceeding £5000." It was the *Times* of that date, choosing its words carefully with a view to electoral effect, that flashed upon its readers the headline, " Labour Policy of Confiscation. The Capital Levy."

NOTE A

NATIONAL EXPENDITURE

THE following estimates of national expenditure for 1922-1923 are taken from the Chancellor of the Exchequer's financial statement of May 1st, 1922. The estimated tax revenue was £729 millions and the estimated revenue from other sources, chiefly "special receipts" from the sale of our few remaining war assets, £181 millions, making a total estimated revenue of just over £910 millions. As against this the estimated expenditure was as follows:—

	<i>£millions</i>
National Debt Services	335
Other Consolidated Fund Services	28
Army, Navy and Air Force	138
Education	52
Old Age Pensions	23
War Pensions	90
Other "Civil Services"	153
Post Office Services	54
Revenue Departments	12
Supplementary Estimates	25
Total	<u>910</u>

It will be seen that, according to these estimates, National Debt services, which include no provision for Debt redemption, but only the annual interest charge, account for 46 per cent. of the tax revenue and 37 per cent. of the revenue from all sources. Also that the interest on the Debt is practically two and a half times the expenditure on the Army, Navy and Air Force combined, more than three and a half times the expenditure on war pensions, more than six times the expenditure on education from national funds and more than fourteen times the expenditure on old age pensions. In default of a Levy, such disparities will almost certainly grow in the next few years, especially if prices fall.

It is an astonishing example of the conspiracy of silence regarding the Debt that the Geddes Committee, which was

THE CAPITAL LEVY EXPLAINED

appointed with a great blowing of trumpets in 1921 "to make recommendations to the Chancellor of the Exchequer for effecting forthwith all possible reductions in the National Expenditure," was barred by its terms of reference from taking into consideration the expenditure on the Debt. The Committee's Report contains no protest against this limitation, and no reference whatever to the Debt.

NOTE B

COMPOSITION OF THE NATIONAL DEBT

ACCORDING to the Finance Accounts, 1921-1922, the composition of the Debt on March 31st, 1922, was as follows:—

FORM OF DEBT AND DATES OF MATURITIES

	Amount in £millions
Consols (2½ per cent. repayable after 1923)	277
Other pre-war debt	54
War Loan (3½ per cent. 1925-1928)	63
War Loan (4½ per cent. 1925-1945)	13
War Loan (5 per cent. 1929-1947)	1887
War Loan (4 per cent. free of income tax 1929-1942)	65
Funding Loan (4 per cent. 1960-1990)	403
Victory Bonds (4 per cent. annual drawings)	356
Conversion Loan (3½ per cent. after 1961)	266
Exchequer Bonds (various 3-5½ per cent. 1922-1930)	186
National War Bonds (various 4-5 per cent. 1922-1929)	1201
Treasury Bonds (various 5-5½ per cent. ¹ 1925-1935)	453
National Savings Certificates	342
Treasury Bills	877
Ways and Means Advances	147
Debt to United States Government	1085
Other debt	2
	7677
<i>Deduct</i> Funding Loan and Victory Bonds tendered in payment of death duties and held by National Debt Commissioners until drawn or paid off	22
	7655
<i>Add</i> accrued interest on National Savings Certificates	45
Total	7700

¹ Including £24 millions of Bonds, on which the rate of interest varies with the bank rate.

THE CAPITAL LEVY EXPLAINED

Between March 31st and October 1st, 1922, £14 millions of Exchequer Bonds, £214 millions of 5½ per cent. Treasury Bonds and £200 millions of National War Bonds were voluntarily converted by their holders into £427 millions of Conversion Loan, £14 millions of 4½ per cent. Treasury Bonds, 1932 (a new issue), £120 millions of 5 per cent. War Loan and £1 million of 4 per cent. (free of income tax) War Loan. The net effect of these conversions is to reduce the annual interest charge by £840,000, but to increase the principal of the Debt by £134 millions. This increase is not "merely nominal," as has been alleged, but, on the assumption that Conversion Loan will appreciate, means an increase in the amount which will have to be repaid later. If, as seems likely, this sort of conversion is to be frequently repeated in the next few years, as a substitute for the genuine repayment of maturing debt, the principal of the Debt will be seriously increased, while no great saving will be made in the annual interest charge.

Further, between March 31st and December 2nd, 1922, the Floating Debt was reduced from £1024 millions to £948 millions, Treasury Bills being reduced from £877 millions to £736 millions, and Ways and Means Advances increased from £147 to £212 millions. But this reduction in the Floating Debt was more than balanced, and indeed was only made possible, by the issue of £66 millions of 4½ per cent. Treasury Bonds and £27 millions of National Savings Certificates. This substitution, taken in conjunction with other minor changes, makes no appreciable difference either to the principal of the Debt or to the annual interest charge. The net result is that the principal of the Debt amounted on December 2nd, 1922, to some £7830 millions.¹

¹ Not taking into account the reduction in the Debt to the United States Government due to the appreciation of sterling in terms of the dollar.

NOTE C

THE YIELD OF THE LEVY

It is impossible for anyone to estimate the yield of the Levy with any great degree of precision. The relevant statistical material is, in any case, inadequate. At the present time, moreover, it is specially difficult to handle, owing to the great fluctuation of values during and since the war. Again, any estimate made now may need considerable revision, either upwards or downwards, as a result of changes, which cannot yet be foreseen, during the next few years. Finally, of course, the yield of the Levy depends upon the detailed scale adopted and, as I have pointed out above, there is no special sanctity about the scale proposed by the Labour Party. This should obviously be open to reconsideration, and may require to be either stiffened or slackened in the light of further discussion and the future course of events. It is essential that these qualifications should be borne in mind by readers of the provisional calculations which follow.

Let us begin by applying the Labour Party's scale to the latest available estate duty statistics (*Report of Inland Revenue Commissioners, 1920-1921*, pp. 30-31). The table on page 76 gives the total value of various classes of estates subject to estate duty in 1920-1921, the average rate of Levy on each class according to the Labour Party's scale and the yield of the Levy in respect of each class.

It may be added that the total number of individual estates greater than £5000 liable to duty in this year was 10,156, of which 11 were worth more than a million pounds, and 18 others were worth more than half-a-million. Comparing the total yield of the Levy on this sample of estates with the total value of the latter, we find that the average effective rate of Levy works out at 25·8 per cent.

We have now to pass from this sample of wealth liable to estate duty to the total wealth liable to the Levy. For this purpose statisticians have sometimes recommended a "multiplier" of 30—that is to say, they have argued that the total wealth of individuals is about thirty times as great as the total wealth of those individuals who die in the course of the year. If we adopt this view we shall have to multiply by 30 our total

THE CAPITAL LEVY EXPLAINED

<i>Individual Estates between</i>		<i>Total value (to nearest £100,000).</i>	<i>Average Rate of Levy.</i>	<i>Yield of Levy.</i>
£	£	£	%	£
5,000 and	10,000	40,500,000	2	810,000
10,000 "	15,000	29,200,000	7	2,044,000
15,000 "	20,000	17,900,000	12	2,148,000
20,000 "	25,000	16,300,000	15	2,445,000
25,000 "	30,000	12,000,000	17	2,040,000
30,000 "	40,000	19,000,000	20	3,800,000
40,000 "	50,000	17,000,000	23	3,910,000
50,000 "	60,000	10,500,000	26	2,730,000
60,000 "	80,000	18,300,000	28	5,124,000
80,000 "	100,000	12,900,000	31	3,999,000
100,000 "	150,000	25,800,000	34	8,772,000
150,000 "	200,000	13,300,000	37	4,921,000
200,000 "	250,000	8,400,000	38	3,192,000
250,000 "	300,000	4,400,000	40	1,760,000
300,000 "	400,000	12,200,000	41	5,002,000
400,000 "	500,000	5,400,000	43	2,322,000
500,000 "	600,000	4,100,000	45	1,845,000
600,000 "	800,000	3,400,000	47	1,598,000
800,000 "	1,000,000	4,200,000	49	2,058,000
1,000,000 "	1,500,000	15,400,000	51	7,854,000
1,500,000 "	2,000,000	5,200,000	53	2,756,000
2,000,000 "	3,000,000	8,700,000	55	4,785,000
Over 3,000,000		2,700,000 ¹	56	1,512,000
		306,800,000		77,427,000

of £306,800,000 in order to obtain the total of wealth liable to the Levy. This gives a total of £9204 millions. Taking 25·2 per cent. of this or, what comes to the same thing, multiplying our total of £77,427,000 by 30, we shall obtain a figure for the total yield of the Levy, on the assumption that the distribution of wealth among those who die in any particular year is much the same as among the living. This works out at £2,322,810,000, or just on £2323 millions. Again applying the multiplier of 30, we should expect to find about 304,680 persons liable to the Levy, of whom about 330 would be millionaires and a further 540 would be worth more than half a million.

There are, however, reasons for believing that this method of

¹ Estate duty had been paid on part of this estate in the previous year.

NOTE C

approach gives results which are below the truth. Sir Josiah Stamp, in his *Wealth and Taxable Capacity*, p. 102, making use of additional material supplied by the Board of Inland Revenue, estimates the total wealth of individuals worth more than £5000 at £10,498 millions, excluding £320 millions representing the value of furniture and residences, or £10,818 millions if these exclusions are not made. He estimates the number of such individuals at 392,256, of whom 322 would be millionaires and a further 883 would be worth more than half-a-million. On this estimate, the yield of the Levy, at 25% per cent. of £10,818 millions, would be £2726 millions.

Sir Josiah Stamp's estimates refer to the middle of 1919, and it may be argued that part of the values in existence at that time have since disappeared. But, on balance, there is probably not much in this. It is true that the value of many industrial shares has fallen in the interval,¹ but, as against this, the value of gilt-edged securities has risen and a good deal of new capital has come into being. Nor does the yield of the death duties in the last few years suggest any appreciable falling off in the total of capital values, on which the Levy would be assessed. For a fair comparison to be made, the yield of these duties must be corrected to allow for the increase in the rates of estate duty under the Finance Act, 1919. According to the *Inland Revenue Commissioners' Report for 1920-1921*, p. 83, "the additional revenue received in the past year from this cause was about £10 millions, while the corresponding sum received in 1919-1920 was only £4 millions, the increased rates being operative only during the latter part of 1919-1920."

I have made an allowance of £12 millions for 1921-1922, and £10 millions for 1922-1923. We then get the following table:—

	<i>Actual yield.</i> (To nearest £100,000).	<i>Corrected yield,</i> <i>allowing for changes</i> <i>in rates of duty.</i>
	£	£
1918-1919 . . .	30,800,000	30,800,000
1919-1920 . . .	42,800,000	38,800,000
1920-1921 . . .	47,200,000	37,200,000
1921-1922 . . .	52,200,000	40,200,000
1922-1923 (estimate)	48,000,000	38,000,000

Further, the estimate for 1922-1923 is likely to be exceeded, the receipts from April to December 1922 being £7 millions in excess of those for the corresponding period of 1921.

¹ But the fall since the middle of 1919 is less than the fall from the crest of the boom in 1920.

THE CAPITAL LEVY EXPLAINED

In the light of this evidence, there seems no reason to reduce our provisional estimate of the yield of the Levy below £2700 millions, which may, indeed, be even now under the mark. Moreover, an appreciable revival of trade, accompanied as it would be by an increase in the value of industrial shares, would entitle us to raise our estimate substantially.

There are still some further points to be considered which have a bearing on the yield of the Levy.

First, there is a deduction to be made from the yield, in so far as discount is allowed on prompt payments. Second, there is an addition to be made to the yield, in so far as interest is charged on deferred payments. Third, there is an addition to be made for interest on securities held by the National Debt Commissioners pending realisation. Fourth, there is an addition to be made if these securities appreciate between receipt and realisation. Similarly, there is a deduction to be made if they depreciate.

These four points have a bearing on the actual yield of the Levy in terms of money. It is not obvious that any discount should be allowed for prompt payments, though clearly interest should be charged for deferred payments. Probably discount should only be allowed, if at all, to those contributors who pay their Levy in full within, say, a year, and should not be allowed in respect of part payments. Let us assume that £1300 millions are paid within a year, of which £650 millions are payments in full and £650 part payments, and that the remaining £1400 millions are paid, on an average, in five years—*i.e.* in four years after the end of the first year.¹ We then have a rough basis, on which to make a very tentative estimate. A discount of 5 per cent. on £650 millions will amount to £34 millions. Interest at 5 per cent. for four years on £1400 millions will amount to £280 millions. Under these two heads, therefore, we shall obtain an additional £246 millions (£280 millions minus £34 millions). This will raise the yield of the Levy to £2946 millions.

Turning to the third point, let us assume that the National

¹ This average period, here taken to be four years, will, of course, be a weighted average. It will be calculated by dividing the total deferred payments, apart from interest, into the sum of the payments made in each period multiplied by the length of each such period calculated from the end of the first year. An average period of four years is, therefore, quite consistent with the possibility that a number of contributors, chiefly men with the bulk of their capital invested in private businesses, will be allowed to pay in instalments spread over ten, or even twenty, years.

NOTE C

Debt Commissioners receive £800 millions of securities, other than British Government securities, in payment of the Levy, that these bear interest, on the average, at 5 per cent., and that the Commissioners hold them, on the average, for three years from the date of receipt till the date of realisation. The Commissioners will then receive a sum of £120 millions in interest, which must be added to the yield of the Levy and will raise it to £3066 millions.

Turning to the fourth point, it must be repeated that the Commissioners will only sell these securities gradually, acting on expert advice and aiming at the largest possible profit on realisation. There should be a good chance of making a profit of £20 millions or so on the skilful sale of £800 millions of securities. But, for the sake of caution in our estimate, we will assume that no such profit is made.

The preceding calculations, in which I think I have refrained from the temptation to "look ever on the sunnier side of doubt," suggest that the authors of *Labour and the War Debt* were justified in their view that "the Levy on the scale proposed should yield, on a cautious estimate, £3000 millions."¹ But it must be repeated that the basis for any really close estimate is not available, and that, even if it were, changes in productivity, prices and the distribution of wealth might considerably alter the estimate, either upwards or downwards, in the course of a few years.

¹ *Labour and the War Debt*, p. 9.

NOTE D

SAVING IN ANNUAL EXPENDITURE AND LOSS OF ANNUAL REVENUE THROUGH THE CAPITAL LEVY

ASSUMING that the yield of the Levy, in terms of money, is £3000 millions, the next step in our calculations is to estimate how much Debt such a Levy will cancel. If all British Government securities accepted in payment of the Levy were accepted at their nominal value, and if all such securities purchased in the open market by the National Debt Commissioners were purchased at their nominal value, the Levy would obviously cancel £3000 millions of Debt. But, in fact, it would cancel more, for, on balance, the market value of British Government securities is less than their nominal value, and this state of things is almost certain to continue for some years to come. Both for payment of the Levy in such securities and for the purchase of such securities by the National Debt Commissioners the market value on the day of payment or of purchase would govern the matter.

Taking the composition of the Debt and the market values at the beginning of December 1922, we find that the following classes of the Debt stood below par:—

	<i>Market value per £100 nominal value</i>	<i>Nominal value. £millions</i>	<i>Market value. £millions</i>
Consols	56	277	255
War Loan (3½ per cent.) .	96	63	60
War Loan (4½ per cent.) .	95	13	12
Funding Loan	86	400	344
Victory Bonds	89	337	300
Conversion Loan	75	693	521
Total		<u>1783</u>	<u>1492</u>

On these classes, therefore, the market value was £291 millions below the nominal value.

NOTE D

The following classes of the Debt stood above par :—

	<i>Market value per £100 nominal value</i>	<i>Nominal value. £millions</i>	<i>Market value. £millions</i>
War Loan (4 per cent. free of income tax).	102	66	67
Treasury Bonds (5½ per cent.)	104	30	31
National War Bonds .	104 (average)	1001	1041
Exchequer Bonds .	102 (average)	172	175
		<hr style="width: 50%; margin: 0 auto;"/>	<hr style="width: 50%; margin: 0 auto;"/>
		1269	1313

On these classes, therefore, the market value was £44 millions above the nominal value.

The remaining classes of the Debt stood practically at par.

The nominal value of the Debt, £7830 millions, must, therefore, be reduced by £291 millions and increased by £44 millions, in order to arrive at the market value. This gives a market value of £7583 millions. If, therefore, we assume that the various classes of Debt are proportionately reduced by the Levy, £3000 millions of Levy would cancel, at the prices of December 1922, some £3086 millions of Debt, and would reduce the nominal value of the latter from £7830 millions to £4744 millions, a decrease of 39 per cent. If the prices of British Government securities appreciate, the cancellation of Debt, in excess of £3000 millions, will diminish; if they depreciate, it will increase. The repayment at fixed prices of maturing debt is not, of course, affected.

The saving, as a result of the Levy, in the annual interest charge will, therefore, be about 39 per cent. On an interest charge of £365 millions¹ this will amount to £142 millions a year. This saving will be realised gradually, as the Levy is collected and its proceeds applied to Debt redemption. But the greater part should be realised in the course of the first two or three years after the imposition of the Levy.

Our next step is to estimate roughly the financial relief which will result and the sum which will be made available for the reduction of annual taxation and for the increase of annual expenditure on the social services.

¹ The probable annual interest charge in the near future cannot be estimated with any accuracy until definite arrangements have been made with regard to the Debt to the United States Government.

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The Levy will result in the cancellation of Debt and hence in the destruction, not of any real wealth, but of a number of pieces of paper, in the form of War Loan scrip, etc., which at present entitle their holders to a tribute from the taxpayers. The Levy will, therefore, cause a certain loss of annual revenue, through the loss of the income tax and super tax now payable on the income from these pieces of paper and of the death duties now payable when they change hands through death. This loss of revenue, however, will be considerably less than the saving in expenditure and, like it, will come about gradually. We shall estimate this loss of revenue provisionally, on the basis of the present rates and yield of taxation.

First, as to income tax. At first sight the loss will be equal to about 5s. in the £ on £142 millions a year—*i.e.* to £35½ millions a year. But this is an overestimate, since no income tax will be lost through the cancellation of 4 per cent. War Loan, which is free of income tax, or of the Debt to the United States Government. These two forms of Debt amount to £1150 millions. A cancellation of 39 per cent. of this would amount to £448 millions and a saving of interest of £22 millions a year. 5s. in the £ on this is £5½ millions, which reduces the loss of income tax to £30 millions a year. If it were decided to pay off more than a proportionate part of the American Debt, using the bulk of the cash proceeds of the Levy for this purpose, the loss of income tax would be still further reduced. This would be a sound policy, since the real burden of external debt is greater than that of internal debt. Let us suppose that an additional £400 millions of the American Debt is paid off, instead of a corresponding amount of internal debt. The interest on this would be £20 millions a year, and 5s. in the £ on this would be £5 millions a year. The loss of income tax would then be reduced to £25 millions a year.

Next, as to super tax, the yield of which in 1921-1922 was £61 millions. The loss here is more difficult to estimate, owing to the graduation of the scale and other complications. In the two typical cases examined on pp. 45-46, the super tax payable dropped, as a result of the Levy, from £87, 10s. to £17, 8s. in the one case and from £13,012, 10s. to £5619 in the other. The loss of super tax was, therefore, 80 per cent. in the one case and 56 per cent. in the other. As a rule, the larger the pre-Levy income subject to super tax, the smaller the percentage loss of super tax through the Levy, and in a weighted average of all relevant cases the average percentage loss will be considerably nearer to 56 per cent. than to 80 per cent. Let us put it provisionally at 65 per cent. But a figure arrived at in this way must be reduced for two reasons: First, because no income subject to super tax will disappear as a

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result of repayment of external debt, and, second, because no earned income will be directly affected by the Levy, which will fall, roughly speaking, only on the sources of investment income. Of the income subject to super tax a considerable part is earned income, and the two cases taken above are not, therefore, really typical, since in the first there is no earned income and in the second earned income amounts only to £1000 out of a total pre-Levy income of £51,000. Allowing for these two deductions, we may, I think, safely reduce our estimate of the percentage loss of super tax through the Levy from 65 per cent. to 55 per cent. This will mean a loss of super tax of £33½ millions a year.

Next, as to death duties. In 1920-1921, the latest year for which we have detailed returns, the yield of the estate duty was £40½ millions, of which £3 millions were obtained from estates worth less than £5000, and, therefore, not subject to the Levy. On the estates over £5000, with an estate duty yield of £38½ millions, the average rate of the Levy would be 25·2 per cent. (see p. 75). The first approximation to the annual loss of estate duty would, therefore, be 25·2 per cent. of £38½ millions—*i.e.* £10 millions a year. But this is an underestimate, since both the estate duty scale and the Levy scale are graduated. Let us add £3 millions on this account, which will bring the loss of estate duty up to £13 millions a year. In 1920-1921 the yield of the legacy and succession duties was £6½ millions a year. These duties are not graduated, except according to the relationship of inheritors to deceased persons. Some legacies and successions, moreover, come out of estates worth less than £5000. Allowing for this fact, the loss of legacy and succession duty will be rather less than 25·2 per cent. of £6½ millions. Let us put it at £1½ millions a year. We arrive, then, at a provisional estimate of £14½ millions a year for the loss of death duty revenue through the Levy. In so far as the yield of the death duties has increased since 1920-1921, this estimate must be increased. On the other hand, in so far as no property subject to death duties will disappear as a result of the repayment of external debt, the estimate must be diminished. The second of these considerations certainly outweighs the first, and we may, I think, safely write down the loss of death duty revenue to £13½ millions a year.

We have now completed our estimate of the annual loss of revenue as a result of the Levy. We have estimated the loss of income tax at £25 millions a year, of super tax at £33½ millions a year, and of death duties at £13½ millions a year, making a total of £72 millions a year. We have to deduct this loss of annual revenue from the saving of £142 millions a year in expenditure on interest on the Debt. This gives us a

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balance of £70 millions a year on the right side, available for reduction of taxation, for increase of social expenditure or for the creation of a Sinking Fund for further Debt reduction.

Let us consider some of the alternative uses of £70 millions a year. It would be possible (1) to reduce the standard rate of income tax by 1s. 6d. in the £, or (2) to reduce the standard rate by 1s. in the £ and to repeal the corporation profits tax, or (3) to repeal all the taxes on food—*i.e.* sugar, tea, cocoa, coffee and dried fruits, and to give in addition some relief to the poorer income tax payers. Nor would any one of these three plans use up the full £70 millions. Following out the first alternative, a five-shilling income tax with the present allowances, plus super tax on the present scale, is estimated to yield £309½ millions a year in 1923-1924. Subtracting £61 millions for super tax, the yield of a five-shilling income tax is £248½ millions a year. After the Levy this would be reduced by £25 millions a year, as estimated above, to £223½ millions a year. The cost of a reduction of eightpence in the standard rate would, therefore, be three-tenths of this, or £67 millions a year. The cost of the second alternative would be £65 millions a year, taking the yield of the corporation profits tax at £20 millions a year. As regards the third alternative, the yield of the food taxes is £53 millions a year, and a further £10 millions a year might be applied to increasing the income tax allowances for children and for married persons. A fourth alternative, which would be financially possible and which might appeal to a Conservative, though not to a Labour, Government, would be to repeal the super tax and death duties altogether, a policy which, allowing for the deductions estimated above, would cost £64 millions a year.

I have suggested on p. 43 that, if opponents of the Levy could thereby be induced to accept it, it would be worth while for a Labour Government to undertake to adopt the first of the above alternatives and to reduce the standard rate of income tax from 5s. to 3s. 6d. in the £. But it is a matter for serious consideration whether, if this were done, the present rates of super tax and death duty on the larger incomes and fortunes should not be simultaneously increased. For otherwise, owing to the graduation of these taxes, the taxation of the wealthier members of the community would be reduced disproportionately as compared with the less wealthy. But there is much to be said, on the merits, for the above reduction of the standard rate, combined with a stiffening of the super tax and death duty scales sufficient to bring in an additional revenue of, say, £30 millions a year.

Looking for a moment at other alternative uses of £70 millions a year, on the assumption that a smaller part of this

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sum is used for tax reduction, it is clear that large opportunities of increased social expenditure on education, health, housing and pensions open out. But it is not possible to pursue this question further here.

There is one last point of great importance. Nothing has, so far, been allowed in the calculations of this Note for the stimulus to production, which it is one of the main objects of the Levy to bring about, and which should result both from reduced annual taxation and from increased social expenditure, which raises the standards of health, efficiency and intelligence among the workers and their children. The effect of taking this into account, and of allowing for its influence in increasing the yield of various taxes, is to make the prospect of further reductions of taxation and further increases in social expenditure even brighter than the preceding calculations suggest. But how much brighter, and how speedily brighter, it is impossible to estimate statistically with any hope of precision.¹

¹ It is important to remember that, in this Note, we are only discussing the probable effects of the Capital Levy, on the scale proposed by the Labour Party, upon the national balance sheet. The question of how much social expenditure should be undertaken is distinct from this, though not wholly independent of it. Thus, quite apart from the Levy, increased social expenditure may be financed either by increased taxation or by savings on other sorts of expenditure—e.g. on armaments.

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EXTRACTS FROM CERTAIN SPEECHES, DOCUMENTS, ETC., CONCERNING THE CAPITAL LEVY

IN recent controversy, and especially during the election campaign of November 1922, many opponents of the Capital Levy have spoken as though this proposal was a blend of villainy and lunacy peculiar to the Labour Party. Both politicians and the public are said to have short memories. Their life, if not a sleep, is often a forgetting, and it may, therefore, be worth while to put on record certain facts, which show that unqualified opposition to the Levy on the part of Conservative and Liberal politicians is only a recent growth. Those who have changed once may easily change again.

Mr Bonar Law has made three interesting speeches on this subject. The first was made on November 14th, 1917, in reply to a Labour deputation, which had presented the case for the Capital Levy. Mr Bonar Law, who was then Chancellor of the Exchequer, said, "The question of whether or not there should be conscription of wealth is entirely a matter of expediency, and I think it is a matter which concerns mainly, not the working classes, but the people who have money. In my opinion it is simply a question of whether it will pay them best, and pay the country best, to have a general Capital Levy and reduce the National Debt as far as you can, or have it continued for fifty years as a constant burden of taxation. . . . My own feeling is that it would be better, both for the wealthy classes and the country, to have this Levy on capital and reduce the burden of the National Debt; that is my own feeling. But I am convinced of this . . . that you cannot do that while the war is going on." There was, therefore, at this time a presumption, even if not a very strong one, in Mr Bonar Law's mind in favour of a Levy when the war was over.

On January 29th, 1918, still as Chancellor of the Exchequer, he spoke in the House of Commons. Some of his followers had criticised his speech to the Labour deputation and had denounced the proposed Levy as "confiscation." On this second occasion he said, "I do not in the least wish to have a subject like this treated as if it were a practical question now.

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All that I do claim is—and this is essential—for of course if it means confiscation, then I have no right to my view—all I think is that there is nothing of confiscation if such a thing were done. The war debt which we are now incurring is like a mortgage on the country. It has behind it the security, not only of the revenue, but of all the assets of this country. Therefore, if the thing in itself were, which remains to be seen, wise, there is no confiscation about it any more than the present system of taxation. . . . In its essentials there is nothing confiscatory about this proposal. . . . I do ask the House of Commons to consider the other side—to consider what will be the effect of an income tax for one or two generations on the present scale."

On November 5th, 1922, Mr Bonar Law, who was then Prime Minister, made an election speech. His followers were at that time in full hue and cry against the Levy, and were making it the chief issue against the Labour Party. Labour candidates, however, were quoting Mr Bonar Law's speeches of 1917 and 1918. It was, therefore, necessary to make some kind of recantation. As reported in the *Times* of November 6th, 1922, Mr Bonar Law said, "I see in the papers every day that I was in favour of a Capital Levy. That is absolute nonsense. . . . That interview was given in the year 1917. I was Chancellor of the Exchequer. The Debt was being piled up at the rate of over two thousand millions a year. I was looking ahead. I thought the war might last for two or three years longer, and if it had, and if our Debt had been doubled, quite possibly a Capital Levy would have been an absolute necessity in this country. . . . One of the main grounds on which I would want to defend a Capital Levy is this. During the war the value of money had completely changed. The pound did not buy more than ten shillings did before the war, and I felt, if it were possible, it would . . . pay the Debt on something like the standard on which it was incurred. But after that change in value has gone back the proposal would be absolute lunacy to-day." This is an interesting speech. It admits that, if only the burden of Debt were allowed to become heavy enough, a Capital Levy might become an "absolute necessity." It thus admits, by implication, that it may even now be an absolute necessity for France, if not for this country. It also admits the relevance of the price level to the strength of the case for the Levy, and thus admits, by implication, that this case is strengthened by the prospect of a future fall in prices. The swift transition from "absolute necessity" to "absolute lunacy" was, no doubt, required by the political situation of the moment. But there is no need to despair of Mr Bonar Law making the return journey, if the wind changes.

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Mr Asquith's speeches on this subject are also interesting. Speaking at Aberystwyth on October 31st, 1919, he said, "There are only two choices—either increased income tax—already very high—or some form of duty upon realised or realisable wealth. A wholesale reduction upon a large scale in the capital of the Debt, if it could be realised without injustice and injury to national production, is far the greatest boon that could be conferred in the interests of the country."

Again on January 27th, 1920, while Liberal candidate at the Paisley by-election, he spoke as follows:—"And then I go to another proposal of what is called the Capital Levy—an unfortunate and in some respects an inappropriate and misleading term. I told you a few moments ago that in my judgment, and in the judgment, I believe, of all Liberals, taxation must not be confiscatory; but there is nothing in principle to differentiate a tax imposed upon accumulated wealth from a tax imposed upon wealth as it comes in, what we commonly call the Income Tax. Or, to put the same thing in more concrete terms, you may have income tax raised to such a figure in the pound that it is really far more, not only sweeping, but far more injurious and unjust in its consequences than almost any conceivable levy upon capital. It is not a question of principle. It is a pure question of expediency and method, and of that only; and I deeply regret that when nearly two years ago I myself urged upon the Government the importance of undertaking an immediate inquiry into this matter—the expediency of the possibility of a Capital Levy—they saw fit to return a negative to my request, which I now repeat. I am of opinion—and I strongly repeat it—that inquiry into this matter is urgent and ought to be immediate. There are three questions, and three questions only, which I think, before it is adopted, ought to be shown to be capable of being answered in the affirmative. The first is—Can it be made equitable in its incidence between different forms of wealth? The second is—Can it be arranged so as not to discourage saving? The third is—Can it be brought into working order by practicable machinery? If these questions, on investigation by competent authorities, can be affirmatively answered, I know of no Liberal principle that would require us to object."

Other Liberals may also be quoted. Mr Masterman, writing in the *Daily News* of May 20th, 1919, said, "Those who oppose the Capital Levy must be challenged for their alternative. They have hitherto offered no alternative. They are borrowing and drifting; drifting is the way to ruin."

Mr Hilton Young, a Liberal follower of Mr Lloyd George, was even more emphatic. Writing in the *Daily News* of June 17th, 1920, he said, "There would be no destruction of real wealth; that is not, I think, seriously contended by the most

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convinced opponents of a Levy. . . . The principal argument against it is that it must create great disquiet and insecurity amongst capitalists. It will not do so if capitalists are convinced that the dangers of no Levy are greater than the dangers of the Levy. That they are greater those who know the state of the country best seem to doubt least. . . . A Capital Levy promises to provide a pathway to the state of content and mutual confidence that is necessary in order that capital and labour may settle down to the great effort in production which the country and the world so urgently need." In spite of these opinions, Mr Hilton Young was shortly afterwards invited by Mr Lloyd George to become Financial Secretary to the Treasury and accepted the offer.

Further, in the House of Commons on May 20th, 1919, Mr Acland, an Independent Liberal, moved an adverse amendment to the motion for the Second Reading of the Finance Bill, on the ground, among others, that the Bill "fails to deal with the War Debt by means of a Capital Levy." This amendment was supported by 23 Independent Liberals—the total strength of this Party in the House being only 35—and by the Labour Party. Among the Independent Liberals voting for the Levy on this occasion was Sir Donald Maclean. In the House of Commons in the following year Mr Clynes moved "that in order to meet the present financial burdens and assist in liquidating the National Debt, further measures should be adopted for raising revenue from accumulated wealth." There voted in favour of this motion, in addition to the Labour Party, 19 Independent Liberals, including Sir Donald Maclean, and 8 Coalition Liberals, including Mr Hilton Young.

In view of these facts it cannot be maintained that the Liberal Party has been consistently opposed to the Levy, nor that its reconversion to this policy in the future is very improbable. But at the General Election of November 1922 the Labour Party alone supported the Levy, both Conservative and Liberal candidates opposing it.

In order to substantiate a remark made on p. 1, I will now make a few quotations from the election literature issued from Conservative Headquarters. A leaflet, which came to be familiarly known by Labour speakers as "the Clutching Hand," made its way into most constituencies. On the front page is a picture of a hand with outstretched fingers about to clutch a little house and garden, a bicycle, a piano, a bundle of Savings Certificates and a bundle of pound notes. Above this picture is written, "What you have the 'Labour' Party wants"; below it, "They'll search your pockets." On the second and third pages is a series of statements headed, "Searching your pockets for the last penny." These statements include the

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following:—"The 'Labour' Party proposes a new special tax on savings, furniture, houses, trading stock, pianos, books, jewellery and all personal possessions. . . . Anyone who is worth more than £1000¹ will have to pay this special levy. Savings for old age and retirement will be confiscated in part. . . . Death duties are to be raised higher and higher, until in the end no one will be allowed to leave anything at death to provide for widow, children and other dependents. Thus life insurance policies, War Loan, and all classes of savings will be confiscated by the 'Labour' Party, whose policy is the 'ultimate extinction of wealth' (see the 'Labour' Party's own publication, *Taxation and the Cost of Living*, page 31).²

¹ This figure, which continually reappears in Conservative election literature, is supported here by a reference to a Labour Party pamphlet published in 1917. It was convenient to ignore the figure of £5000, which was the figure given for exemption from the Capital Levy in the Labour Party's election programme in November 1922, and the reasons for the adoption of which are explained on p. 31 above. For it was obviously easier to curdle blood with the aid of the lower figure.

² This is a striking example of perverse misquotation. On p. 31 of *Taxation and the Cost of Living* the following passage occurs:—"We suggest that, in addition to steepening the death duties, the Government should increase the duty at each successive transference of inherited wealth to the point of ultimate extinction. For example, if a person bequeaths a fortune on which the death duty is 20 per cent., this fortune (whether bequeathed to one person or to several) should, when it is next transferred (or when any portion of it is transferred), pay a duty of, say, 40 per cent. When the whole or any portion of it is again transferred to other hands, the duty should be, say, 60 per cent. At each transference the duty would increase until ultimately the whole of the residue would pass into the hands of the State. *These progressive taxes would not apply to that portion of a person's fortune which was not inherited. The death duty payable on that part of a person's possessions which he had himself amassed would be that payable for a first transfer of wealth*" (my italics). The scheme of death duties here advocated is that known as the Rignano scheme, after the name of the Italian economist who first proposed it. It is regarded favourably by many English economists, including Sir Josiah Stamp, who says, "Possibly what is known as the Rignano plan . . . might also be specially adapted to take advantage of the gap between the 'time-horizon' of the individual and that of the State. The taxation of inheritance progressively as the

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. . . These are not the proposals of 'wild' Socialists. They are advocated by the so-called moderate 'Labour' leaders. They are contained in the official publications issued by the 'Labour' Party. They are not, therefore, 'bogeys' raised to frighten you." On the fourth page of this leaflet occurs the following:—"The issue is not 'Labour' Party v. Other Political Parties. It is 'Labour' Party v. Your Pockets. If you don't like the 'Labour' Party confiscating your savings, taxing all your income, except just enough to enable you to live, and searching your pockets for the last penny, you will vote for the Unionist candidate. Safety first!"

Another Conservative leaflet is headed, "Are you a capitalist?" It proceeds as follows:—"There is no fixed division between capitalists and workers. The worker who has saved a few pounds out of his wages and put them into a Friendly or Co-operative Society is a 'capitalist.' Small sums mount up, and the result is that the working classes are large holders of capital. . . . In 1918 there was more than £240 millions invested by Friendly Societies, Co-operative Societies, Building Societies and Trade Unions. . . . You may think that the Socialist 'Labour' Party would not dare to conscript this working-class wealth. But Socialists believe that *all* capital belongs to the State and that private ownership is wrong. They demand now that part of the savings and possessions of a man with over £1000 should be conscripted. You may say, 'I've not £1000. I've only £25.' That may be. But there is no fixture with the £1000 limit. It could be brought down to £500, or £50, or £25 quite easily any day to include your nest egg. . . . Conscription of savings and possessions will be applied first to cases where there is much capital that can easily be taken. The small 'capitalists' will only have to wait their turn. Millionaires are early in the list. *But they are few.* The big limited companies too will be called upon to pay. *There are not too many of them.* What of those £240 millions so conveniently gathered together in Friendly, Co-operative and Building Societies, and Trade Unions? That sum will make the Socialists' mouths water. Run no risks with your savings. Vote Unionist. Safety first!"

What comment can one make upon such methods of controversy? I leave it to my readers.

inheritance becomes more removed from the original saver would not penalise the individual worker—it might make him work the harder to know that nearly all he himself produces and saves will pass intact to his sons, whereas what he has inherited from his grandfather will be heavily taxed" (*Wealth and Taxable Capacity*, p. 190).

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Dalton, H.

The Capital Levy Explained

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Books drawn from the library may not be retained for longer than a fortnight.

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