

Minutes of Evidence

TAKEN BEFORE THE

Committee on National Debt and Taxation.

VOLUME I. p. 1-343

Vol. 2 p. 344-730



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COMMITTEE ON NATIONAL DEBT AND TAXATION.

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Mr. W. H. COATES, LL.B., B.Sc.

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9465. *Mrs. Wootton*: With regard to savings, in order to get a capital fund rather than income, would you say that applies almost without exception to the wage-earning part?—No, I think it goes beyond that.

9466. It covers that and more?—Yes, it covers that and much more. (*Paragraphs 26, 27 and 28 read.*)

9467. *Sir Alan Anderson*: Did anyone suggest that there was a tendency for the wealthy man to retire from business because of heavy taxation?—I have gathered it from constantly perusing such statements.

9468. I do not see why there should not be. I should have thought whatever tendency there was to taxation would affect the old man the same as the young man?—I should have thought it would have made him more inclined to say he need not work; why should he; he has the means to go out of business and not to pursue adventurous enterprise; but he apparently stops in.

9469. *Sir Alan Anderson*: I do not see that age

comes in at all. *Mr. Hichens*: Does not that show as much as anything else that it is part of a man's life. He is not thinking of the profits only that he gets out of the business, but he does it because he is interested in it?—*Witness*: Exactly; the old man will not go.

9470. *Sir Alan Anderson*: Does it not show one other thing too, that it is inevitable that the reward should be so adapted as to tempt people to come on, to tempt the young as well as to tempt the old? *Mr. Hichens*: It seems to indicate that the reward has been sufficient. *Sir Alan Anderson*: I agree, it has been.

9471. *Mr. Hichens*: We are very much obliged to you for coming to us this afternoon, and I think I may say this: those who do not altogether agree with you, as well as those who do, have had their minds very considerably cleared by the admirable evidence that you have been able to give us.—Thank you, very much.

(*The Witness withdrew.*)

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APPENDIX I.

QUESTIONNAIRES ISSUED BY THE COMMITTEE TO WITNESSES.

(A.)

BROAD QUESTIONS RELATING TO THE NATIONAL DEBT AND THE INCIDENCE OF EXISTING TAXATION.*

1. How does the National Debt affect the supply of credit and the supply of permanent capital for trade and industry, with particular reference to the effect of the Floating Debt?

2. How does it affect the terms on which capital can be raised?

3. To what extent is it desirable to pursue a policy of debt repayment during a period of trade depression, or to what extent should it rather wait upon the prosperity of trade? In other words, should repayment be adjusted according to the conditions of trade, and if so, on what principle?

4. How far does the high *income taxation* necessitated by the debt involve the withdrawal of trade income which could otherwise be counted on for the expansion of business, and which, so capitalised, would produce a high rate of profits due to managing ability and to the calculated risks of personal enterprise?

5. How far does the burden of taxation fall upon the business itself and hamper its operations? In particular, does it contribute to handicap the exporter in competing in foreign markets against world prices?

6. How far can the receipts of industry, as holder in the debt, be set against the tax paid by industry for its service?

7. What is the effect of *Income Tax* on companies' undistributed reserves?

8. What is the effect of the existing taxes on the supply of capital from the public, and on total purchasing power?

9. How far does the heavy *Income Tax* deter the foreigner from investing in this country? How far does it induce the British resident to invest outside this country?

10. Does *Income Tax* enter into prices, and if so, how? In particular, does it contribute to handicap the exporter in competing in foreign markets against world prices?

11. How far do the existing taxes act as a deterrent to saving and to enterprise on the part of the individual engaged in trade and the investor generally? Do they similarly affect joint stock companies?

12. How far do the *Death Duties* involve a destruction of capital? How far can they be said to come ultimately out of the national income?

13. Are any of the *Stamp Duties* detrimental to trade, industry or employment and, if so, in what manner?

14. What distinction, if any, can be drawn between the incidence of *Income Tax* and that of the *Corporation Profits Tax*? What are the general effects of the latter on trade, industry and employment?

15. To what extent (a) in the present depression, and (b) in a period of normal trade, is the ordinary assumption correct that a *tax on commodities* is borne by the consumer?

16. What is the effect of the *Customs and Excise Duties* on the prices of commodities? How does this affect internal and external trade?

(B.)

BROAD QUESTIONS RELATING TO THE NATIONAL DEBT AND THE INCIDENCE OF EXISTING TAXATION.

1. How do the National Debt (apart from the taxation which it necessitates), and movements in the National Debt through repayment, conversions, etc., affect (1) the supply of credit and (2) the supply of permanent capital for trade and industry, both in volume and direction? Does any distinction exist between the effects of the Floating Debt and the longer term debt?

2. Does the existence of the debt, or movements in the debt, affect the *terms* upon which capital can be raised for trade and industry.

3. Should provision be made for repayment every year of debt? In that case

(a) should the same amount be repaid every year, and, if so, is the present Sinking Fund of £50,000,000 satisfactory? If it is not sufficient, ought it to be increased, even if taxes have to be increased?

or

(b) should the amount repaid vary, and if so, on what principle? Should it be less in years of bad trade? Should the variation be subject to the maintenance every year of a fixed minimum repayment, and, if so, of what amount?

If any alteration of the existing annual provision for the debt (interest and redemption) is suggested, what would be its effect upon trade, conversion of the debt and credit?

Is it considered desirable to apply any Budget surplus to repayment of debt?

4. Is it thought to be desirable to convert any or all of the Floating Debt?

5. To what extent is the debt charge held to necessitate an injurious restriction of public expenditure upon desirable objects?

6. Does repayment of the debt necessarily involve deflation of prices, such as is likely to be injurious to trade?

7. What is the effect of the existing taxes on the supply of permanent capital from the public, and on total purchasing power? Is there any evidence of a present shortage of capital for industry? Is it anticipated that there will be a shortage of capital when trade improves?

8. How far do the existing taxes act as a deterrent to saving and to enterprise on the part of the individual engaged in trade and the investor generally? Do they similarly affect joint stock companies?

9. How far does the high *Income Tax* (including Super-tax) withdraw money which could otherwise be counted on for the expansion of business, and which, so capitalised, would produce a rate of profit proportionate to managing ability and to the risks of personal enterprise, and higher on the average than the rate of interest on Government debt?

10. How far does the burden of the *Income Tax* fall upon the business itself and hamper its operations? What is its effect on (1) the ability of companies to build up reserves, and (2) the policy of companies as between distribution in dividend and allocation to reserve?

11. Does *Income Tax* enter into prices, and if so, how? Does it in this or in any other way handicap the exporter in competing in foreign markets against world prices?

12. How far do the *Death Duties* involve a destruction of capital? Do they inflict special damage on

*This questionnaire was superseded shortly after the Committee commenced to take evidence by the form shown in Appendix I (B).

private businesses, and, if so, can any suggestion be made for amending the duties so as to obviate this special effect, without reducing the yield?

13. Are any of the *Stamp Duties* detrimental to trade, industry or employment, and, if so, in what manner?

14. To what extent is a *tax on commodities* borne by the consumer? How are internal and external trade affected?

15. Is importance to be attached to the maintenance of a particular ratio between direct and indirect taxation, and if so, on what principles should the ratio be determined?

16. What effects does the present system of taxation tend to have upon the distribution of wealth? Is it considered that these effects are in the best interests of the country in the long run? If any broad amendment of the system is advocated, how would such an amendment affect the distribution?

17. Can existing taxation be varied with advantage, and, if so, how far and in what ways, without increasing the total amount raised by taxation?

18. How far would increased productivity in trade and industry affect the burden of the debt?

19. To what extent can taxation (as distinguished from *changes in taxation*) be regarded as a determinant of employment or unemployment? If it is held that the aggregate demand for labour is permanently reduced by taxation, does the effect show in unemployment or in a lower level of wages?

If taxation is a cause of unemployment, to what extent is this due to (a) the effect of taxation in reducing new savings, or (b) the effect of taxation in reducing consumers' demand for goods?

In a few cases the following additional questions were asked.

1. Is our standard of living higher or lower than in 1914, positively, class by class, and relatively to similar classes in other nations?

If you think our standard of living has risen, has our standard of production risen also, and, if so, has it risen enough to offset the rise in the scale of living, or are we relatively less able to compete in the world's markets than in 1914?

2. Is our burden heavier than we and other nations have borne after great wars in the past, positively per head of population and relatively to the trade of the countries at the comparable periods?

(C.)

QUESTIONS REGARDING A CAPITAL LEVY.

1. In your opinion, is the present financial and general position of the country such as to make it essential, or especially desirable, for us as a nation to make a large repayment of National Debt at an early date?

If you are in favour of such a repayment, which of the following methods would you suggest:—(a) a large increase of existing taxation; (b) a severe restriction of expenditure; (c) a combination of (a) and (b); or (d) a Capital Levy? Have you any scheme to suggest which falls outside these alternatives?

Do you anticipate that the future level of prices will differ from the present level to any considerable extent? How is the case for early repayment affected by any such anticipation?

2.—(1) Assuming that a Capital Levy for debt redemption were to be introduced, would you adopt, either as having special advantages, or as affording the most useful basis for discussion, the suggestions for a possible form of levy made by the Labour Party? Under these suggestions—

- (a) the levy would be confined to individuals;
- (b) it would be imposed on material wealth only (as distinct, e.g., from the "brain capital" of the professional man);
- (c) the limit of exemption, and the scale of assessment, would be as shown in the Annex to these questions;

(d) the yield contemplated would be £3,000,000,000; and

(e) the net annual saving (in the sense indicated in question 13) would be regarded as available both for reduction of the rates of future taxes, and for expenditure.

If, or so far as, you do not adopt these suggestions, will you please formulate your own proposals under corresponding heads?

(2) The levy having been applied to the reduction of debt, would you consider it desirable to reduce the amount (£50,000,000 per annum) of the present Sinking Fund?

(3) What changes (if any) would you advocate in taxation, consequential upon a levy?

Note.—IT IS REQUESTED THAT THE SUCCEEDING QUESTIONS MAY BE CONSIDERED THROUGHOUT IN RELATION TO A CAPITAL LEVY (AND SUBSEQUENT OPERATIONS) OF THE FORM ADOPTED OR PROPOSED BY YOU IN REPLY TO QUESTION 2.

3. From the point of view of equity to the individual taxpayer, and the principle of ability to pay, how would you compare the merits and demerits of a Capital Levy with those of the existing income taxation over a period of time?

4. Is it considered that the lapse of time since the war period has a bearing on the acceptability of a Capital Levy, and, in particular, on the question whether a guarantee against its repetition would be both convincing and effective? Do you consider that such a guarantee would be desirable? If so, can you suggest what practicable form it should take?

5. What would be the general effects of a Capital Levy on trade and industry?

To what extent do you think that the arguments for and against a Capital Levy are relative to the state of trade at the time when the levy might be introduced?

6. Looking first at immediate results, and then at results over a long period, how would you compare the friction and dislocation of business which might result from a levy, applied once, with the friction and dislocation caused by the present high annual taxation?

7. What would be the effect of a Capital Levy on employment?

8. What would be the direct and indirect effects of a Capital Levy for the purpose of debt redemption upon the distribution of wealth?

9. How would a Capital Levy compare with other forms of taxation in its effect on the future accumulation of wealth in the form of (a) the individual savings of those subject to the levy, (b) the individual savings of those not subject to the levy, and (c) collective savings, such as companies' reserves? What effect would you anticipate on aggregate savings?

To what extent does this question depend on the considerations referred to in question 4?

10. What, on balance, would be the immediate and ultimate effects on national credit at home and abroad of repaying a large part of the debt by means of a Capital Levy?

11. Would the imposition of a Capital Levy, in your opinion, lead to the sale of securities, and consequent depreciation in their prices, upon a large scale? How far would any such depreciation be prevented as a result of the demand for investments by holders of debt that was paid off by the levy?

12. To what extent would a Capital Levy involve deflation? Would deflation be intensified or prolonged by the psychological effect of a levy?

13. How far does the balance of advantage or disadvantage in a Capital Levy depend on the amount of the net annual saving which it would effect? Have you estimated the extent to which the *gross saving*—i.e., the saving in interest expenditure—would be offset by a reduction in the yield of taxes at their existing rates as a result of the disappearance of certain taxable income?

14. With regard to the practical working of a levy and subsequent operations, would you give your views upon the following points:—

(a) Have you any suggestion to make as to the methods by which property should be valued for the purpose of a levy?

(b) Would it be possible, in your opinion, to base a levy on a single valuation, not liable to review in the light of subsequent events, such as changes in the market rate of interest and in the level of prices?

What would be the position on the death of a life tenant, assuming the year of his death not to bear out the forecast of life on which his interest had been valued?

(c) Could you form any estimate

(1) of the extent to which a Capital Levy could be paid in cash, and

(2) of the extent to which payment could be accepted, and could be made,

(a) in War Loan,

(b) in other Stock Exchange securities,

(c) in other forms of property, including real property?

(d) How far would difficulties regarding the payment of a levy be likely to arise in the case of a private business, whether firm or company? How far would you regard such a case as typical of industry generally?

(e) To what extent would it be necessary or desirable to allow payment of levy to be made by instalments (a) generally or (b) in particular cases, e.g., in those of the proprietor of a private business, the life tenant under a settlement, etc.?

To the extent that payment by instalments was allowed, how far would losses or variations in the taxpayer's wealth during the period of payment affect the finality of initial valuations?

(f) Would you approve of any special treatment in the case of a private business, where the partners or proprietors could show that the whole of the resources were locked up in the business and that substantial reasons existed for not obtaining credits on the security of business assets to meet the levy?

If so, would you allow payment of a special additional Income Tax in lieu of the levy, or would you propose any other alternative?

(g) To the extent that payment was received in forms other than War Loan, have you any

views as to the order in which particular parts of the debt should be repaid as cash became available? Would you advocate that powers should be taken compulsorily to redeem debt before its maturity, or would you effect reduction by purchase in the market? If the latter, what effects would you anticipate upon the general level of security prices?

15. Would you add any points you wish to make in connection with a Capital Levy not covered by your replies to the above questions?

ANNEXE.

EXTRACT FROM

"LABOUR AND THE WAR DEBT."

A STATEMENT OF POLICY FOR THE REDEMPTION OF WAR DEBT BY A LEVY ON ACCUMULATED WEALTH."

SCALE OF THE LEVY.

The levy should be graduated so as to carry out the principle of taxation according to ability to pay. A graduated scale on the following lines is suggested:

					Levy per cent.
First	£5,000 ...	£0 —	£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:—

		Per cent. of his total fortune.
A man worth not exceeding £5,000 would pay nothing.		
"	£6,000 would pay	£50 or 0·8
"	£8,000 " "	£250 " 8·2
"	£10,000 " "	£550 " 11·0
"	£15,000 " "	£1,550 " 31·0
"	£20,000 " "	£2,800 " 56·0
"	£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

APPENDIX II.

DRAPERS' CHAMBER OF TRADE OF THE UNITED KINGDOM.

Replies to the Committee's Questionnaire (Appendix I (B)).

Questions 1-6.

1. These questions appear to relate to matters which could be more properly commented upon by bankers, economists, and financiers.

Questions 7-10.

2. Undoubtedly much of the money which has gone in increased taxation has been diverted from channels which would have meant increased trading and employment. Improvements of premises and extensions of buildings, etc., have been held up, and the public has, owing to heavy taxation, had less money available, consequently, goods have not been manufactured to as great an extent as when taxes were lower. Many traders place a considerable part of profits over and above actual expenditure into their premises and stocks, and, probably, the smaller draper would put most, if not all of his surplus into his business.

Question 11.

3. Probably Income Tax affects prices at the source of production, but it is not allowed for by retailers when calculating and fixing selling prices.

Question 12.

4. Inasmuch as it is a Government levy it does.

Question 13.

5. A reversion to one penny cheque stamps would probably mean the quicker payment of small debts, which, in the aggregate, throughout the country would mean greater and quicker turnover of capital.

Question 14.

6. A tax on a commodity adds to its cost price, and the normal profit is, of course, reckoned on the sum which includes the tax. The consumer, therefore, has to pay the amount of the tax, plus the normal profit of the distributor.

Question 15.

7. The more direct a tax, the greater would be the likelihood of its being kept as low as possible as it is seen and realised by the public. An indirect tax is not so readily realised and, therefore, may become a dangerous extravagance.

Question 16.

8. Such taxation is not economical, and furthermore the collection of indirect taxes means heavy increase of additional officials, salaries, and officials' expenses.

Question 17.

9. A direct tax is far more likely to keep our Parliamentary representatives studying economy than any other system. The taxation of the Wholesale and Retail Co-operative Societies in the same manner

as private traders, would bring in considerable additional revenue, and is a reform which (in justice to the private trader, with whom these societies compete unfairly to the extent of the taxes which they evade) should have been brought about long ago.

Question 18.

10. The increase would naturally be the sum of the tax on additional profits.

Question 19.

11. The probable effect of increased taxes would be increased unemployment and an inclination to lower wages. Probably 75 per cent. of the extra taxes would have been spent in buildings, premises, stocks, &c., &c., and the other 25 per cent. in investments. Hence, lesser taxes mean improvement all round and lessened unemployment.

APPENDIX III.

REPLY BY THE LATE LORD LEVERHULME TO THE COMMITTEE'S QUESTIONNAIRE (*Appendix I (B)*).

S.Y. "Albion,"
Off Burutu,
Southern Nigeria,
20th December, 1924.

DEAR LORD COLWYN,

YOUR letter of 14th October was posted after me to West Africa, and I am taking the earliest opportunity of replying thereto, and I regret that my answer should be so long delayed. It may be that my reply to your questions will arrive too late to be of any service to your Committee. None the less, I have great pleasure in replying to your questions, and with reference to the question of publication, you are quite at liberty to publish the whole or any portion of my replies, which are as follows:—

Question 1.—I do not possess sufficient experience to make any reply of mine of value or importance to the Committee.

Question 2.—If I understand this question aright, I would reply that it must be inevitable that the terms on which capital can be raised for industry are greatly affected by the present National Debt and the movements of such National Debt. But, in my opinion, the existence of debt or the movements of debt do not affect the terms on which capital can be raised for industry to anything like the disastrous extent that the present high rate of Income Tax, high rate of Super-tax, and high scale of death duties do affect the terms on which capital can be raised for industries and commerce.

Question 3.—It seems to myself that it is essential provision should be arranged ever year for the gradual repayment of the present National Debt.

Sub-question (a):—

In view of the magnitude of the National Debt, the present annual sinking fund of £50,000,000 cannot be considered, even when increased by Budget surpluses, as sufficient. In my opinion it ought not to be inevitable, whilst increasing this rate of repayment, to increase taxes, but it is essential to cut down expenditure on Civil Service, Navy, and Army in order to achieve this.

Sub-question (b):—

The amount repaid might be varied, but it should be varied upwards and not below the minimum fixed, and the present fixed minimum of £50,000,000 per year cannot be considered excessive.

It is in my opinion desirable to apply Budget surpluses to the repayment of debt.

Question 4.—In my opinion, but I am not a banker and my opinion is valueless on this point, it is not

desirable to have a large Floating Debt. Although it may be a convenience at certain times, Floating Debt should only be temporary and conversion should take place at a reasonably early date in order to maintain this possible temporary financing available on emergency.

Question 5.—All debt charges, whether of Governments or of private individuals must, if the debtors are wise, produce restrictions on expenditure, but while private individuals will restrict their expenditure to clear themselves of debt, we are not having the restrictions in public expenditure on Civil Service, Navy, and Army that of necessity ought to be undertaken in order to restore at the earliest possible moment the country to nearer normal conditions and so reduce the necessity for the present excessively heavy taxation.

Question 6.—Deflation in prices brought about artificially by drastic and hurried restrictions on credit are a public disaster in that such deflation does not benefit the consumer because it injures the credit of the producer and so reduces production. Gradual deflation of prices on the other hand benefits trade by enabling the consumer to increase his purchases and so enabling the manufacturer by gradually increasing output to still further reduce costs and consequently to still further lower prices. It is entirely a question of the speed at which deflation can wisely proceed.

Question 7.—It is obvious that high taxation must curtail the supply of permanent capital from the public and restrict the purchasing power of the public. High taxation reduces the purchasing power of the people and therefore their demand for goods and therefore the demand for capital in most industries is reduced also, so that an automatic adjustment takes place whereby when the purchasing power of the public is reduced the demand for capital for industries is correspondingly reduced. As far as my knowledge goes, there is no shortage of capital for industries at the present moment and if changes are gradual there is no reason to anticipate a shortage in the future.

Question 8.—Undoubtedly the present high rate of taxation does deter enterprise and obviously not only is a deterrent, but, which is even worse than a deterrent, makes it impossible for many families to effect any savings. Obviously if a father must decide between cutting down the school bills of his children and reducing their necessary supplies of food, clothing, &c., or cutting down his annual savings, he will be a wise father if he be more solicitous for the future and present welfare of his children than for the amount of his savings.

Question 9.—With reference to this question, I would refer to a saying by the late Mr. Gladstone to the effect that "Money left in the pockets of the people fructified more than in the coffers of the State," but obviously the nation must bear whatever taxes are required in order to pay the interest on the debt and to gradually repay the principal, and there could be no greater calamity to the nation than to reduce taxation at the expense of sound national finance.

Question 10.—The burden of excessive Income Tax is felt in the higher prices for commodities, brought about by the reduced purchasing power of the public, resulting in smaller output of industries, and this obviously limits the ability of private firms and Limited Companies to build up reserves. The company that reduces dividends in order to allocate profits to reserves would find financial support from the investing public greatly hampered thereby.

Question 11.—Undoubtedly Income Tax is passed on in prices to as great an extent as possible to the consumer and does hamper exporters in competing in foreign markets against nations with less heavy taxes.

Question 12.—Reasonably high Death Duties do appear to myself to offer a favourable opportunity, when property is being transferred from a deceased owner to new owners, for the Government to receive a reasonable proportion of the estate on the basis that the Government makes costly expenditure for the protection of property by Police Service, Navy, Army and other branches of the Government Services. For instance, the Police Service is much more effective in protecting property than in protecting human life. All citizens obviously cannot be attended by plain-clothes policemen to protect life, but property can be so protected, and is so protected, and therefore when property changes hands on the death of a former owner, there occurs a favourable opportunity for property to be taxed to make a special contribution towards the cost of the Government Services. I am of opinion, however, the present death duties are excessive, and at the earliest possible moment, when the national finances permit, it would be wise policy for the Government to reduce them, but the principle of death duties, and even of reasonably high death duties on a graduated scale, seems to me to be sound and just.

Question 13.—I do not think that any of the stamp duties are seriously detrimental to industry or trade.

Question 14.—The whole of any direct taxation on commodities plus a percentage of profit over and above such taxes must inevitably be passed on to the consumer and therefore must hamper internal trade, and as to external trade the main reason why Great Britain enjoys a larger export trade per head of its population than any other people in the world is because Great Britain has access to the world's supply of raw materials under free trade conditions at the world's lowest cost of production. It is impossible to limit import duties to manufactured articles, because what is manufactured article for one industry is raw material for another.

Question 15.—It appears to me to be impossible to maintain any particular ratio between direct and indirect taxation. The advantages of economical collection are all in favour of direct taxation.

Question 16.—Our present system of direct taxation, including death duties, does tend to a more equal distribution of wealth, and when not carried to excess, as is the case at the present time, is in the best interests of the country and of all sections of citizens.

Question 17.—I have no suggestions to make with reference to any changes in the existing taxation. In my opinion direct taxation is greatly preferable to indirect, both from the point of view of economy of collection by the Government and also of stability of national finances and the attainment of the lowest possible cost of living for the people.

Question 18.—Undoubtedly increased productivity in trade and industry would lighten the burden carried by the nation of the heavy load of the National Debt caused by the war. No increased production is possible, however, without increased demand and there can be no increased demand without increased purchasing power and this purchasing power under the present high taxation is seriously impaired. No reduction in taxation which deferred debt reduction would permanently relieve this position. The only practical relief is by the reduction of Governmental expenditure.

Question 19.—The present heavy taxation, by reducing the purchasing power of the people, is the determinant factor in the increased unemployment. Those nations, on the Continent especially, who have not increased their taxation as a result of the War, have not suffered from unemployment to the same extent as has Great Britain. But this lower taxation is merely a futile policy and certainly is not one that any British statesman would consider for one moment because the honour and credit of Britain and the stability of the Empire can only be maintained by a full, frank, and free acknowledgement of all debts incurred and by regular payment of all charges for interest and the gradual repayment of all loans. To maintain this standard is the only possible British policy and we must face the embarrassment of high taxation rather than risk incurring in the slightest degree national discredit.

Undoubtedly high taxation is the cause of unemployment and the effect of that taxation must be reduced savings and a reduction also of the consumer's purchasing power for goods.

Additional Question 1.—Not only is the standard of living of the mass of the people higher to-day than in 1914 but every increase in the standard of living inevitably stimulates the desire for still better living conditions and so long as this acts correspondingly as a direct stimulus to the efforts of individuals to achieve improved living conditions this effect will more than counterbalance the ill effect of high taxation, but should taxation be on so high a rate as to discourage efforts simultaneously that certain classes of citizens are trained by receipt of doles rather than to look to Government for relief and help than to depend on their own efforts for betterment, so reducing the spirit of what is called "Self-help," then we should inevitably sink as a decadent nation. This is unthinkable, therefore every increase and improvement in the standard of living must be so reached as to be a direct stimulus to the individual to achieve further betterment. Then every step forward will widen the horizon for improvement and stimulate individuals to achieve further advances. Thus only can the standard of living be raised whilst at the same time strengthening the character and will power of the whole people.

Our standard of production can only be increased by increased demand resulting in increased output. We are not enjoying increased demand, and output is consequently limited and below what would have been normal at the present time in view of the increase in population during the last ten years. It is our lessened demand from consumers in our home markets that makes us relatively less able to compete in the world's overseas markets than we were ten years ago.

Additional Question 2.—While our burden is undoubtedly heavier than either ourselves or other nations have borne in the past after previous great wars, the discoveries made by scientists in electricity, water force, engineering, transportation, and cheaper production of power generally, have increased at relatively a much greater rate during the last century than has our burden of debt. At the end of the Napoleonic wars Great Britain had £800,000,000 of debt; at the end of the Great War, Great Britain has £8,000,000,000 or thereabouts of debt, but our population is greater, our Empire overseas is larger, whilst our productions of manufactures, thanks to the discoveries of scientists, are more than ten times what they were a century ago.

Yours sincerely,
(Signed) LEVERHULME.

APPENDIX IV.

MEMORANDUM SUBMITTED BY THE SCOTTISH LAND AND PROPERTY FEDERATION.

The following Memorandum is submitted in response to the Committee's invitation to the Scottish Land and Property Federation to supply a written Statement of its views on those aspects of the incidence of taxation with which the Federation is especially concerned.

1. The Scottish Land and Property Federation is the only organisation in Scotland representing the interests of landowners. Accordingly, so far as taxation is concerned, the only aspects of the question in which it is specially interested is the effect of taxation on the agricultural landowner and through him directly and indirectly on the agricultural industry. The membership of the Federation is about 1,300, including not only nearly all the larger landowners in Scotland but a considerable proportion of the smaller proprietors as well.

2. Taxation is levied on land in the form of Income Tax (including Super-tax), Land Tax and Death Duties. Before dealing with each of these separately, it is desirable to focus clearly the position of the agricultural landowner in regard to his estates. His relations with his tenants are so closely interwoven that any effect which taxation may have upon him has a direct repercussion on his property and those who make their living from it.

3. In the first place, landed estates have been developed and established by the expenditure of enormous sums of capital on the part of the landowner. It has frequently been stated that the money spent on the equipment and improvement of the land represents more than one half of the total capital required by the agricultural industry. The money sunk in this way often amounts to more than the selling value of the land. See Appendix A annexed to this Memorandum.*

4. In the second place the return on the capital thus provided has been far below the yield from capital provided for other undertakings. When the standard return was five per cent. the landowner was content with two and a half per cent. or less. There were many reasons for this, which need not be detailed; the result was that the tenant farmer and the agricultural industry got the benefit.

5. In the third place the capital is in a most illiquid form. It is difficult to realise, and its realisation may affect not only the landowner himself but his tenants and employees as well.

* This Appendix is not reproduced in detail. It showed the rental and acreage of 60 farms (exceeding 50 acres each) and one mill on the Buccleuch Estates, together with the estimated replacement cost at the date of the Memorandum (February, 1925) of buildings, fences, till drainage, water supplies and private roads, &c. In the aggregate the figures were:—Total acreage, 18,964; rent, £8,663 5s. 7d.; rent per acre, 9s. 2d. Cost of Replacement—buildings, £281,160; fences, £24,320; till drainage, £54,450; water supplies and roads, £23,740; total cost of replacement, £382,670. Improvement per acre, £20 4s. The Federation add that the original outlay and subsequent expenditure on improvements, additions and upkeep would easily come to two-thirds of the present cost of replacement. They indicate also that the cost of replacing fences is based upon the cheapest form of fencing; to replace them in the existing form would cost far more even if labour were available for the purpose. The Federation add that "it will be seen that the present value of the permanent equipment is more than forty times the annual rental, or more than the capital value of the estate."

Income Tax and Super-tax.

6. In the view of the Federation the present high rate of Income Tax and Super-tax has the following prejudicial effects on the agricultural industry:—

(a) *It hampers the provision of capital, which is urgently required.* Anybody with a knowledge of agriculture who passes through the country in a train or a motor car with his eyes open can see that more capital is needed for the maintenance and development of the land. Where is the money to come from? As has been stated already, the landowner has supplied it in the past. Where is he to find this fresh capital in the future? In a Statement which was submitted by the Federation to the Chancellor of the Exchequer in November, 1921, figures were given showing the nett return from six typical estates in Scotland. These figures are repeated in Appendix B to this Memorandum. It is clear from these instances that the margin left to the landowner was always small; high taxation and increased rates of interest on borrowed money have still further reduced it.

(b) *It increases the cost of maintenance.*—Landowners have generally to employ tradesmen to carry out their work. These tradesmen, to meet the high taxation which is levied on their profits, raise their prices in order to pass the burden on. The landowner is not in a position to do the same. The increased rent which a tenant can pay for an improvement depends not on the cost of the improvement but on what he can get for the produce of his farm. This is subject to world-wide competition.

(c) *It reduces the landowner's income from other sources.*—Agriculture has been largely financed by landowners out of income from sources other than their land. When this income is curtailed by high taxation this source of supply is depleted.

(d) *It increases the rate of interest on borrowed money.*—Whilst the State before the War and prior to the present burden of taxation could borrow money at 3 or 3½ per cent., it has now to pay 4½ or 5 per cent. First mortgages over landed property were a favourite form of investment in Scotland. Landowners frequently borrowed money on the security of their estates for their improvement and development. The security was first class and the rate of interest in the case of a well secured loan was only a shade higher than the rate obtained in the case of Consols. When an estate, therefore, with a fairly large mortgage secured over it found the rate of interest raised from say 3 to 5½ per cent. the financial effect was disastrous.

(e) *It leads to reductions in the number of estate employees.*—Retrenchment being necessary, the landowner is forced to explore every road which will lead to economy. He can let, or try to let the mansion house: this affects mainly himself and his personal servants. He can spend nothing on his farm steadings; this hits his tenants. He can dismiss a large number of his estate employees: this, besides other bad effects, causes unemployment and drives some of the rural population into the towns, already overcrowded and full of unemployed.

7. The landowner who pays Income Tax under Schedule A. is in a less fortunate position than the business man who pays Income Tax under Schedule D. The latter only pays tax on his actual profits when they are ascertained; the former pays tax on an assessment based on a statutory value

which is always in excess of his profits and then is obliged to lodge a claim, called a Maintenance Claim, to recover the excess tax which he has had to pay. The State, in the meantime, has the use of the money for nothing, although the landowner may have had to overdraw his bank account to pay the tax as originally assessed. This grievance is aggravated by the long delays, often inevitable, which occur in adjusting Maintenance Claims. Another point in connection with such claims may also be noted. Anything in the nature of improvement expenditure is generally ruled out, though higher standards of living and more enlightened methods of farming necessitate an ever-increasing expenditure on modernising the permanent equipment of an agricultural estate.

8. The Maintenance Claim nevertheless is a great boon to landowners who expend money on the upkeep of their estates. Although it is a hardship to pay more tax than you ought to, it is undoubtedly a relief to know that you can recover the overpayment later. This repayment, however, is subject to an important limitation; it cannot exceed the amount of the Schedule A tax paid on the estate in respect of which the Maintenance Claim is made. The Federation recently was interested in the case of a proprietor who owned three estates in different parts of Scotland, each managed separately, and who was also possessed of other taxed income of considerable value. In the case of one of his estates the maintenance expenditure, as adjusted with the Inspector of Taxes, exceeded the Schedule A Assessment. The Inspector of Taxes maintained that the proprietor could not recover more tax than the Schedule A Assessment paid on that estate. That is to say, he could not set off the loss on one of his estates against the taxed profits on another estate. The Court of Session held that, on a strict interpretation of the Schedule A Rule governing Maintenance Claims, the Inspector of Taxes was right. This seems hardly equitable. Individuals, not land, pay taxes. In a case such as that mentioned it is suggested that the landowner should be entitled to set off the loss on one of his estates either (a) against his other taxed income, or (b) against other Schedule A tax paid by him. As there are special rules governing Schedule A tax, the latter is probably the fairer proposal.

9. Super-tax follows the Schedule A Assessment. Accordingly, where there is a long delay in adjusting the Maintenance Claim, the landowner sometimes not only pays more Income Tax than he ought to, but more Super-tax as well. When there is a claim of this sort awaiting adjustment, the Inland Revenue should deal leniently with the demand for Super-tax. It was never intended that people should pay more tax than they are liable for; it is the growing complexity of the Income Tax system that brings about such a state of affairs.

Land Tax.

10. This is an additional burden levied on land. There is no justification for it. The total Land Tax paid in Scotland amounts to about £32,000. It is a fixed sum in the case of each estate. When estates are broken up the tax has to be allocated. This causes additional work and the subsequent collection in small amounts is troublesome for the State. It is suggested, therefore, that the State, in its own interests as well as in the interests of the taxpayer, should make the redemption price of this tax as attractive as possible.

11. A further suggestion is also made. As this tax is borne solely by land, it might with advantage and in justice to the agricultural industry be spent on agricultural research, or in some other way, to benefit the industry which alone pays it. An analogy can be found in the motor licence duties, which are devoted to the upkeep of the roads.

Death Duties.

12. There can be no question but that the high scale of Death Duties, introduced by the Finance

Act of 1919, press with special severity upon the owners of agricultural land and, indirectly, have a very prejudicial effect on the agricultural industry. The main reason for this is that capital invested in landed estate is not a liquid commodity. In the case of capital consisting of investments and easily liquidated assets, it is possible to meet the enormous Death Duties imposed on large estates by realising parts of the estate without causing undue disturbance of the market or inflicting hardships on other individuals. When capital is invested in stone and lime and the immovable equipment of a landed property, its realisation is not only difficult but reacts on those who are temporarily using that equipment in their ordinary business.

13. A landowner faced with high rates of Death Duty can only meet them in one of the following ways:—

(i) *By selling his whole estate.* Taxation which drives a man from the home and property which in many cases has been for generations in the family is surely based on principles which savour rather of confiscation than taxation. Landowners have played a large part in the development of the land of the country and taken their full share of the burden of local affairs. Apart from personal considerations, it is not in the interests of the country that they should be forced to abandon the role which they have played in the social community of the rural districts. Moreover, the passing of the landed estate is not the end of the landlord but the annihilation of the tenancy system, under which the farmers of this country have been enabled to devote their whole capital to their farming operations instead of locking up more than half of it in the land and equipment which are required therefor.

(ii) *By selling portions of his estate.*—Here the owner is faced with the difficulty of doing this. A letter to a stockbroker can arrange for the sale of £50,000 of securities. The sale of £50,000 worth of land is a very different proposition. To start with there is the heavy expense of advertisement and sale and the conveyancing fees, and secondly there is the inevitable disturbance of sitting tenants who may not be able to purchase their holdings. Even when the sitting tenant can buy he finds a large part of the liquid capital necessary for his farming operations tied up and rendered immobile. There are also many consequences flowing from the break up of a large estate which directly affect the local community. A reduction in the size of an estate means a reduction in the numbers of the estate staff. Local labour is dispensed with and driven into the towns. The management too may suffer, as a small property does not require and cannot maintain the factorial staff needed for a large estate.

(iii) *By mortgaging his estate.*—Such a mortgage will probably not be a first mortgage and the rate of interest will consequently be high. The landowner will certainly be paying a much higher rate of interest on his borrowed capital than the interest, or return, which he can get on the capital sunk in his estate. The result is a smaller margin of revenue for meeting the cost of maintenance and upkeep.

(iv) *By paying the Death Duties by instalments.*—The duties can be paid by sixteen half yearly instalments with interest (from which Income Tax cannot be deducted) at 4 per cent. on the balance outstanding. Owing, however, to the narrow margin of rental which is available after meeting taxation and the cost of maintenance, there is (in the case of the high Death Duties) an insufficient balance to meet the Death Duty instalments. Realisation of some kind with its consequent disturbance is therefore too frequently a necessity.

(v) *By Insurance.*—There are two serious difficulties in the way of making this a satisfactory means of meeting Death Duties. The first is the very large inroad made by the annual premiums on the nett rental of the estate, and the second is the constant increases in the rate of the duty. A landowner may insure against a 10 per cent. rate of Death Duty only to find in a few years that the rate has been doubled. Moreover the sum insured under the policy has to be aggregated with the rest of the estate and may even have the effect of increasing the rate of duty.

14. The foregoing remarks have dealt with the large Estate. When Death Duties have to be paid on the estates of the new occupying-owner class the same problem will arise as to how cash is to be found to meet the duties.

15. The Federation's views in regard to Death Duties are:—

(i) They are always a source of difficulty to the individual whose capital is locked up in trade and whose resources are illiquid. The landowner is pre-eminently in this category.

(ii) In the case of such individuals when the Duties are at a high rate they invariably have a prejudicial effect on his business and those connected with it. This is particularly so in the case of the landowner.

(iii) Greater relief should be given where the succession is quick and where a second Death Duty becomes payable before the first has been paid off.

(iv) In the valuation of land for Death Duty purposes consideration should be had to the fact that the annual income from land is very low compared to its capital value. It is suggested that the Duty should be charged on a moderate capitalisation of the nett actual annual return, that is, after allowance for all outgoings, subject to this proviso that, if any part of the estate came to be sold in the lifetime of the person who succeeded, duty should then become payable on the capital value, as at the date of the succession, of the land sold, under deduction of the duty already paid on the annual value thereof.

(v) If Death Duty is to be charged on capital value then in valuing land for Death Duty purposes regard should be had to the heavy cost of realisation.

(vi) That Death Duties, being a tax on capital, should be earmarked for the redemption of the National Debt.

16. The extreme pressure of taxation on landed estates has been evidenced of late by the frequent formation of private companies to hold and develop them. In adopting the facilities of the Companies' Acts landowners are seeking to secure that, as in other industries, they shall be taxed only on actual realised income, and thereby to preserve that margin of revenue which is essential if they are to be in a position properly to equip and maintain their landed estates.

Local Taxation.

17. The attention of the Federation has been specially directed to the point that the incidence of local taxation is not within the province of the Com-

mittee. Apart from the incidence of local taxation it is permissible to point out—

(i) That local rates have to bear the cost of services which are national or quasi-national in character. As an instance it may be mentioned that there are four counties in Scotland where the Road Rate alone is 5s. in the £ or upwards on the gross rental. In one district it amounts to as much as 10s. 10d. in the £.

(ii) That Landowners in Scotland bear directly a large share of local rates, whereas in England rates are paid by the occupier.

(iii) That, with the exception of the relief given by the Agricultural Rates Act of 1923, landowners in Scotland have had no share in the relief granted to Agriculture out of public funds.

Edinburgh,

February, 1925.

APPENDIX A.

Not reproduced: See note to paragraph 3 of Memorandum.

APPENDIX B.

Net return per £ of Gross Rental.

Before pay- After pay-
ment of ment of
Income Tax. Income Tax.
s. d. s. d.

Estate A, Counties of Moray and Inverness:—

1911-12	...	...	10	4	9	4½
1920-21	...	...	2	7	(Nil—	Loss 11½d.)

Estate B, County of Forfar:—

1911-12	...	...	12	3	11	5
1920-21	...	...	10	0	6	3

Estate C, Counties of Perth, Lanark and Stirling:—

1911-12	...	...	10	6	9	8½
1920-21	...	...	8	6	4	6½

Estate D, County of Clackmannan:—

1911-12	...	...	7	10	7	1
1920-21	...	...	3	9½	2	2½

Estate E, County of Argyll:—

1911-12	...	...	6	0	5	3
1920-21	...	...	4	2½	2	7½

Estate F, Dumfries and Lanark:—

1911-12	...	...	9	6½	8	8½
1920-21	...	...	4	0	0	9

Estate G, Dumfries and Roxburgh:—

1912	...	...	11	5	10	8
1920	...	...	6	4½	2	10½

It will be seen that only in one case (Estate B, County of Forfar) is the net return per £ of gross rental, after payment of Income Tax for year 1920-21, as much as half the net return for year 1911-12, while in most cases the proportion is much less, and in one case there is a deficit instead of a net return.

The figures in the foregoing analysis take no account of Super-tax. The actual amount of Super-tax paid cannot be stated, but it is possible to compute what the Super-tax would have amounted to for year 1920-21 if the estate dealt with in each case had represented the owner's sole source of income. The following figures give the result of the computation:—

—	Amount of Income Tax paid.	Amount of Income on which Tax paid.	Super-tax thereon.	Amount per £ on Gross Rental.	Net return before payment of Super-tax.	Result after payment of Super-tax.	
						Deficit.	Surplus.
Estate A	£ 2,342	£ 7,807	£ 919	s. d. 1 4½	s. d. 0 11½ (deficit)	s. d. 2 4	s. d. —
" B	3,393	11,310	1,790	1 11½	6 3	—	4 3½
" C	3,078	10,260	1,527	1 11½	4 6½	—	2 7½
" D	408	1,360	—	—	2 2½	—	2 2½
" E	549	1,830	—	—	2 7½	—	2 7½
" F	1,788	5,960	530	0 11½	0 9	0 2½	—
" G	7,494	24,980	5,332	2 6½	2 10½	—	0 3½

APPENDIX V.

STATEMENT SUBMITTED BY THE NATIONAL GAS COUNCIL REGARDING
AD VALOREM STAMP DUTY AND CAPITAL DUTY.

One of the objects of the Gas Regulation Act, 1920, is to "authorise arrangements for the purchase by agreement, joint working or amalgamation of undertakings."

The duties payable in the case of purchase of an undertaking by a company are:—

A.—(i) Share Capital Duty of 1 per cent. upon the nominal capital of the buying company issued in lieu of the issued share capital of the selling company.

(ii) Share Capital Duty of 1 per cent. upon the authorised but unissued capital of the selling company if the powers of issue are acquired by the buying company.

B.—Loan Capital Duty of 2s. 6d. per cent. upon the loan capital of the buying company issued in lieu of the loan capital of the selling company.

C.—*Ad valorem* Conveyance Duty of 1 per cent. on the full considerations for the transfer of the acquired company.

In the event of purchase of an undertaking by a Local Authority, Duty "A" is not payable.

The amounts payable in respect of the various duties in three recent cases of purchase of gas undertakings by statutory gas companies have been as follows:—

	1.	2.	3.
A.—Share Capital Duty ...	3,364	5,512	2,840
B.—Loan " " ...	94	333	161
C.—Conveyance Duty ...	3,386	6,251	5,215
	<u>£6,844</u>	<u>£12,096</u>	<u>£8,216</u>

The above total sums are equal to 1d. per 1,000 cubic feet of gas sold by the acquired companies during periods of two-and-a-half to four years.

Share Capital Duty (under heading "A") would be paid by the selling company when statutory powers authorising such capital were obtained by the

selling company; therefore, duty is paid twice on the same share capital.

Loan Capital Duty (under heading "B") would be paid by the selling company when issuing the loan capital; therefore, duty is paid twice on the same loan capital.

Amalgamations of gas undertakings are in the public interest. In practically all cases of amalgamations the price of gas to the consumers in the area acquired has been reduced. Owing, however, to the consideration, costs and charges payable, benefits are in some cases delayed. Statement "A" shows the benefits to consumers in some recent amalgamations of gas undertakings.*

The National Gas Council consider that the duties payable upon amalgamations are unfair and too heavy; unfair in respect of Share Capital and Loan Capital Duties, which are paid twice upon the same capital, and so heavy that they tend to retard amalgamations, as purchasing companies cannot economically pay for an undertaking an unlimited price including all charges.

Parliament, in authorising the recent national amalgamations of railway companies, exempted such from Capital Duty (Railway Act, 1921, Section 7 (iv)).

The Council also consider that public utility companies are deterred from carrying out desirable stock and share arrangements by reason of the Capital Duty payable in respect of additions to existing nominal capital by reason of conversions of stocks and shares under which no additional cash is used in the business. Conversions of stocks and shares which result in lower denominations generally also result in further issues of capital at the lower denominations, which means more nominal capital is issued than would have been the case if no conversion had taken place, and, consequently, more Capital Duty is paid upon such.

15th October, 1925.

* This statement is not reproduced.

APPENDIX VI.

REPLY BY THE FEDERATION OF BRITISH INDUSTRIES TO THE COMMITTEE'S QUESTIONNAIRE ON THE CAPITAL LEVY (*Appendix I (C)*).

12th February, 1925.

DEAR SIR,

Committee on National Debt and Taxation.

I have to acknowledge the receipt of your letter of the 17th ultimo, which has now been considered by the Grand Council of the Federation. The Council wish me to thank you for giving them an opportunity of submitting further evidence to the Committee on the subject of a Capital Levy. The only further observations which the Council wish to lay before the Committee are as follows:—

Question 1.

The answer to the first part of the question is, that in the opinion of the Federation there is nothing in the present financial and general position of the country which makes it desirable that a large repayment of the National Debt should be made at an early date. On the contrary, as explained in the written evidence already submitted, in the Federation's opinion it is essential to the welfare of industry that the annual payments should be as small as possible and repayment spread over as long a period as possible.

With regard to the second portion of the question, in the Federation's opinion the only justifiable method of finding a means for repayment of debt would lie in a severe restriction of expenditure. At the present moment, however, for the reasons given in their main memorandum of evidence,* they consider that there are substantial grounds for believing that in the long run a reduction of taxation rather than a repayment of debt would be the wisest way, at any rate for the next few years, in which to employ any available funds arising from the restriction of expenditure. In their opinion a restoration of the wealth-producing capacity of the country by the revival and expansion of industry and employment should be the first objective, and repayment of debt on any substantial scale should only be undertaken when the additional revenue at a low level of taxation is available as a result of this expansion.

The answer to the third part of the question is, that while it is impossible to forecast what the actual future price level will be, there are indications as to the limits within which fluctuation is probable. In the first place, any attempt to reduce the price level by a policy of monetary deflation would meet with

* See Minutes of Evidence, p. 247.

strenuous resistance, and therefore the only fall in price level which is likely to take place in the future will be that caused by cheaper methods of production and new inventions; but such a fall would in all probability be a very gradual process. It is, however, unlikely that the price level will continue for very much longer to be a matter within the independent control of individual countries, such as has been the case during the last five years. The imminence of a return to a gold standard by this and other countries make it probable that the price level in the future will be a world price level i.e., will depend on the value of gold. If we may presume that sooner or later the Genoa resolutions on Currency will be put into effect, this means that it will largely depend on the decision arrived at by a Conference of the Central Banks of the world. It is difficult to conceive any such World Conference agreeing to a falling price level; indeed, past experience would suggest that there would be notable influence in favour of the contrary policy, especially when it is remembered that the fifteen years before the war, which were generally regarded as years of business prosperity, were years in which the world price level was rising gradually. Moreover the real weight of the burdens, both of national and international debts in the future would depend on the decision arrived at by such a conference.

Lastly, regard must be had to the growing body of opinion in favour of stability. If we may assume that there will be a compromise, then the most likely compromise is the stabilisation of world prices at somewhere above the present level.

As far as can be judged, therefore, the probability seems to be that the future level of prices, if it differs at all from the present level, will be higher.

Immediate heavy repayment of debt therefore, which might be justified in circumstances when a rapid and substantial fall in prices was to be anticipated, would merely result in unnecessary sacrifice and effort, since the debt could be repaid more cheaply at a later date.

Remaining Questions.

With regard to the remaining questions in the questionnaire, the Federation feel that they have

been answered as fully in their previous memorandum as they can be by an organisation representing industry. If they may be permitted to recapitulate briefly the evidence already given, the principal dangers to be anticipated from a Capital Levy relate to its deflationary aspects. In the opinion of the Federation any rapid repayment of National Debt must have a strong direct deflationary effect on the credit structure of the country and produce serious dislocation of the normal operations of industry, thus reducing both output and employment.

In their opinion these direct effects would be greatly aggravated by the psychological effects of a levy. Even in the most favourable circumstances it is an extremely hazardous operation to tamper with a country's financial machine, and especially with the financial machine of a country in the position of Great Britain, which is the principal international clearing house both for money and goods; and on this ground alone the Federation would regard the prospect of a Capital Levy with lively apprehension. The psychological disturbance which would inevitably be caused by such interference would almost certainly be increased by the political conditions attending the enforcement of a measure of this kind. If any suspicion arose, as it would be probable, that the real object of imposing the levy was not the repayment of debt but the redistribution of national wealth, a fatal blow would have been dealt to the whole structure of confidence upon which a due observance of contractual obligations, the willingness to bear risks, or to accumulate savings, depend.

The great difficulty at the present time, after the experience and the disturbances of the war years, is to establish sufficient confidence to encourage individuals to save and to adventure their savings in the development and expansion of industry and trade. If that confidence were once seriously shaken, the maintenance of even the present volume of trade and standard of living would become impossible.

Yours faithfully,

D. L. WALKER,
Secretary.

APPENDIX VII.

REPLY BY MR. J. A. HOBSON TO THE COMMITTEE'S QUESTIONNAIRE ON THE CAPITAL LEVY (*Appendix I (C)*).

ANSWER TO QUESTION 1 (as to case for a large and early repayment of debt, and method suggested).

1. The proposal of a Capital Levy, widely accepted in 1919 as a desirable and practicable relief of the burden of national indebtedness, has been carefully subjected to so much delay as to render it now less desirable and less practicable. But I still think that such an agreed effort to reduce the debt would be advantageous to the nation. I use the term "agreed effort" because I think that a strong widespread resistance by owners of capital might cause so much financial disturbance as to turn the scale of advantage against such a levy.

2. I do not anticipate any considerable early change in the level of prices. A considerable rise in the price level would no doubt facilitate gradual repayment out of current revenue, especially in periods of prosperous trade when revenue would be large and War Loan cheap.

ANSWER TO QUESTION 2 (as to form of levy).

3. (Section 1).—I accept the suggestions here stated as a substantially sound basis for a Capital Levy. With regard to (c) I see no reason for earmarking any net savings for the purpose of reducing taxation. Productive expenditure might in certain cases furnish a better use of the savings, even for purposes of promoting future revenue.

4. (Section 2) (as to reduction of Sinking Fund after levy).—I hold that it would be better not to keep a fixed contribution to the Sinking Fund, but to leave it to the discretion of the Government to vary the contribution according to the varying state of the revenue.

ANSWER TO QUESTION 3 (as to equity, etc., of levy as compared with income taxation).

5. Payment of a portion of the debt by a levy would signify a larger proportionate burden upon owners of property and recipients of unearned income, and a small proportionate burden upon recipients of earned income, over a period of years. Unless it can be shown that this will interfere seriously with future accumulation of capital, this course may be deemed both equitable and comfortable to the principle of ability to pay.

ANSWER TO QUESTION 4 (as to guarantee against repetition).

6. The lapse of time has made a Capital Levy less acceptable and less productive. I do not think, however, that the delay materially affects the feelings or beliefs regarding the probability of a repetition. No guarantee against such repetition is desirable. Were another war to give rise to a similar burden, it might be desirable to adopt a similar policy of relief. Short of this emergency, I do not believe that there would

exist on the part of owners of capital any real apprehension of another levy.

ANSWER TO QUESTION 5 (*as to effects on trade and industry*).

7. A Capital Levy would evidently be easier to carry out and more productive if applied while trade was prosperous and capital values high. But, apart from financial disturbances organised to discredit and render difficult the enforcement of a levy, I do not think that a levy, administered with due regard to the difficulties of full immediate payment for certain classes of property, need be attended by any serious disturbance of trade or industry.

ANSWER TO QUESTION 6 (*as to friction and dislocation of business under a levy compared with that under high annual taxation*).

8. I think that a special act of war-sacrifice on the part of the classes with most ability to pay, with the object of lightening the permanent burden of taxation for the nation as a whole, reduces the aggregate pressure of the burden in the long run. An organised panic made by financiers and business men in order to stave off a levy might, however, cause so much friction and dislocation as to make it better not to press the levy.

ANSWER TO QUESTION 7 (*as to effects on employment*).

9. I do not think a Capital Levy need have any detrimental effect on employment. It would not reduce the available capital or labour in the country or affect the volume of effective demand. Indeed, such relief as it afforded to the annual burden of taxation, would tend to enlarge the volume of employment, partly by stimulating effective demand for consumption, partly by enabling more saving to be made from current increases. The frequent suggestions that there would be some shortage of working capital, due to the attempt to pay part of the levy out of liquid resources, and to the cancelment of War Loan used as a basis of bank credit, are invalid. The former suggestion presupposes a hard and foolish administration of the levy. The latter carries the extraordinary implication that a large debt is good for trade by expanding the volume of sound available credit.

ANSWER TO QUESTION 8 (*as to effects on distribution of wealth*).

10. A Capital Levy, progressive in incidence, would tend to distribute wealth more equally, unless one

accepts the contention that apprehension of another levy would so deter future accumulation of capital as to raise considerably the rates of interest and profit.

ANSWER TO QUESTION 9 (*as to effects on future savings*).

11. Having no belief in the reality of apprehensions of another levy, I do not believe that this cause will interfere with future saving. The money repaid to holders of War Bonds will presumably be reinvested. So far as the levy, or its instalments, is met out of current business incomes, the tendency will be to effect special savings for this purpose, so increasing the aggregate savings for the year in question. The individual savings of those not subject to the levy may be enlarged by the relief afforded to their tax payment. If the levy were confined to individuals, no direct or necessary interference with companies' reserves need take place, except so far as there were a tendency to distribute a larger proportion of the annual income in order to facilitate payment of the levy by the shareholders.

ANSWER TO QUESTION 10 (*as to effects on national credit at home and abroad*).

12. I see no reason why an early repayment of debt by a special effort of economy, admittedly good for the credit of an individual business, should not be good for the credit of the nation, alike as regards terms for future borrowing at home and abroad, unless it can be shown that the method of payment is detrimental to the future productivity of the nation.

ANSWER TO QUESTION 11 (*as to effects on sale of securities*).

13. Unless one supposes that the recipients of money in repayment of War Bonds spent the money instead of reinvesting it (a wholly unreasonable supposition) I see no reason why anything but a transfer of ownership of securities at current values would occur.

ANSWER TO QUESTION 12 (*as to extent of deflation involved by levy*).

14. The notion that a Capital Levy might cause deflation is attributable to the mistaken view that bank credit is determined in volume by the quantity of paper collateral, instead of by the reserves held by banks in relation to the state of trade.

APPENDIX VIII.

REPLY BY PROFESSOR D. H. MACGREGOR, M.C., TO THE COMMITTEE'S QUESTIONNAIRE ON THE CAPITAL LEVY (*Appendix I (C)*).

ANSWER TO QUESTION 1 (*as to case for a large and early repayment of debt, and method suggested*).

1. In view of the great uncertainty as to the future of international politics, and of the course of prices, and in view of the magnitude of the debt, we should try to afford a large repayment in the next 20 or 30 years.

2. Political causes which would compel borrowing at a future time would also be likely to lead, in advance of that time, to increased military expenditure and taxation, possibly to encroachment on any Sinking Fund now arranged. Therefore a levy on capital is a surer method of placing ourselves some amount in hand with repayment, then arrangements to reduce expenditure or increase taxation, which the course of events may upset.

3. The general, as distinct from the financial, position might be improved by a levy, by removing in part the social objection to the fundholders' lien, based on the fact that money was borrowed during the War which could have been raised by taxation.

ANSWER TO QUESTION 2 (*as to form of levy*).

4. (Section 1).—Any levy should be placed on the material capital of individuals, with exemption below £5,000. Personal capital is partly assessed in the material capital it creates. There is some inequity in its complete exclusion, a consideration which should affect the size of the levy.

5. In view of equities and administrative problems, 1,000 millions is a reasonable sum for the present to afford. The equities are between capitalists of the moment and of the future. The administrative problems require more definition.

6. The larger the levy, the more serious the questions of (1) changes in the values of securities in the process, especially of War Loan in relation to other securities; (2) disposal of the Treasury's holdings of securities paid over; (3) the consequent amount of debt repaid; (4) disturbance to the basis of credit.

7. It would be necessary to take War Loan at a premium on market values. When the currency in which a tax is payable is not fixed, the payers will

apply Gresham's Law, and will pay in the securities they least desire to keep. As War Loan will be known to be about to appreciate by cancellation, it will as far as possible be retained, unless a premium is put upon it. For an operation of 8,000 millions, this premium may have to be considerable, and unduly favourable to one form of investment.

8. *Per contra*, for so large an operation, the Treasury is still liable to find itself holding a large volume of those securities which are most difficult to dispose of because they were the most readily surrendered. It is true that this effect on security values will be distributed and that it will not be known what are the securities which the Treasury is anxious to dispose of. But it must obtain cash, and with 8,000 millions in question, there is the risk of unfairness to holders of some already depreciated industrial shares, or the operation, and the uncertainty of the market, must be prolonged.

9. The yield of a large levy is also liable to be reduced by means adopted to escape from it; e.g. settlement on friends or relatives, who would for a time live abroad, of securities whose income arises outside this country.

10. (Section 2) *(as to reduction of Sinking Fund after levy)*.—A levy of 1,000 millions might save 15 millions of taxation on the present basis. This could be added to the present Sinking Fund, which might then accumulate for 20 years within a fixed charge of 325 millions, so that the sum applied to repayment in that period would be, at 4 per cent. 2,930 millions, inclusive of the levy. Alternatively, the taxation saved at present rates might be applied to reduction of indirect taxation, in order to overcome the existing regressiveness of taxation as a whole on the lowest incomes, in which case about 2,500 millions would in 20 years be applied to reduction of debt.

11. An accumulating Sinking Fund of 65 millions would in 20 years at 4 per cent. apply 1,930 millions to debt reduction, nearly as much as a doubled and constant Sinking Fund. If the levy were applied equally to Consols, because they are a cheap stock, and to War Bonds, because they are an undesirable form of finance, it would redeem about 1,300 millions of debt. If the Sinking Fund were effective at par, the whole repayment in 20 years would be about 3,200 millions. If the amount of surplus at existing rates of taxation were applied instead to reduction of taxes, the amount repaid would be about 2,700 millions.

ANSWER TO QUESTION 3 *(as to equity, etc., of levy as compared with income taxation)*.

12. Some inequities could not be prevented. The rate of interest at the time the levy is imposed will affect the respective amounts of nominal capital handed over by holders of ordinary shares and of fixed interest bearing securities, a high rate being against the latter; whereas income taxation for an increased Sinking Fund would fall on actual incomes from investment. On the other hand, progressive income taxation over a period of time may cause fluctuating incomes to pay more over that period than their average would justify, especially if the averaging system were given up; and they may suffer in this way as compared with more regular incomes.

ANSWER TO QUESTION 4 *(as to guarantee against repetition)*.

13. The acceptability of a levy has now more reference to future war than to the Great War. If the growth of armaments became again menacing, or the League of Nations were imperilled by any unforeseen crisis, there might have to be another levy. A levy now would be part of a scheme to repay a substantial amount in 20 years, and its acceptance would imply a provisional postponement of repetition for that period.

ANSWER TO QUESTION 5 *(as to effects on trade and industry)*.

14. The supply of public securities is now so great in relation to the business of the country, as compared with pre-war times, allowing for the change

in prices, that the cancellation of 1,000 millions could probably be afforded without seriously affecting business credit. Some permanent appreciation in the value of public securities is also to be expected through cancellation.

In view of the question of equity mentioned above, it would be advisable to impose a levy when the rate of interest was not above 4 per cent.

ANSWERS TO QUESTIONS 6 and 7 *(as to friction and dislocation of business under a levy compared with that under high annual taxation, &c.)*.

15. The purpose of the levy is to accelerate repayment of debt. An alternative scheme for this purpose will add to the Sinking Fund and to taxation. In relation to friction and dislocation, 1,000 millions is a manageable amount. But I do not know with what alternative proposal it is desired to compare it. A doubled Sinking Fund will mean a total charge of 400 falling in 20 years to 320 millions, so that taxation on this account would be falling as trade recovered. On the levy proposal it would be steady at 325 millions.

Friction and dislocation, with their effects on employment, may be increased by mere opposition to the levy; on the other hand, the fact of a levy may make for industrial peace from the side of labour.

ANSWER TO QUESTION 8 *(as to effects on distribution of wealth)*.

16. The levy cancels and does not transfer, capital values. Fundholders not liable to the levy, for example, receive cash instead of their War Loan, which is destroyed. The equalisation of wealth acts once only, through the sums levied, not twice, through the transfers of these sums. This is the direct effect. The indirect effect is through an increase in the progression of taxation, which is the result of any levy which is at least as progressive as existing taxation as a whole. A levy of 1,000 millions would imply rates varying from 2 per cent. on estates of from 5 to 10 thousands to a maximum of 20 per cent., and this is more progressive than existing taxation as a whole. Progression would also be increased by the fact of exemption below £5,000.

ANSWER TO QUESTION 9 *(as to effects on future savings)*.

17. Those liable to a levy would not have any reason to diminish future savings, except in so far as they feared its repetition. So far as savings aimed at a definite provision for the future, they might be increased.

There is no obvious influence on the savings of those not liable.

Companies' reserves would not be liable, but they are liable to taxation.

18. The fear of repetition would therefore be the largest influence on aggregate savings. This would itself be measured by the administrative success of the levy, and the public realisation of what an alternative method of redemption would have cost in taxation. The latter would not be realised unless the levy, when imposed, was fully explained in relation to it. There might also be some fear that a successful levy for reduction of debt might cause the method of Capital Levy to become a fiscal instrument for other purposes.

ANSWER TO QUESTION 10 *(as to effects on national credit at home and abroad)*.

19. The influences on national credit will show themselves at some future time, if a financial emergency then arises. Our present finance should have in mind the criticisms which will be made then, if the problem of the debt has not been firmly handled. Similar criticisms would be passed on inadequate military preparation; and since military organisation on a large scale is still thought necessary, arrangements for the mobilisation of finance should accompany it. But on this ground there is nothing to choose between a levy and an equally effective adjustment of taxation.

ANSWER TO QUESTION 11 (*as to effects on sale of securities*).

20. See reply to Question 2 (paragraph 6 *et seq.*).

ANSWER TO QUESTION 12 (*as to extent of deflation involved by levy*).

21. The proportion of securities in estates over £5,000 increases from about 50 per cent. to about 60 per cent. in the large estates. A levy with a maximum of about 20 per cent. would leave a large margin, before pledged securities were encroached on. The best collateral, and the investments of banks, will appreciate somewhat in the process.

ANSWER TO QUESTION 13 (*as to net annual saving effected by levy*).

22. A Capital Levy, because of its effect on the bases of taxation, is not a powerful method of reduction of taxation. But it should be remembered that alternative schemes for reducing debt rapidly will imply higher taxation.

For a levy of 1,000 millions, the net saving in taxation at existing rates would be from 15 to 18 millions, estimated as follows:—

	Millions.
Gross saving in income taxation	45
Loss of Income Tax	10
„ „ Super-tax	9
„ „ Death Duties	8
	27
Net saving	18

This estimate probably errs in excess.

[In estimating the loss on Death Duties, a weighted multiplier, varying from 15 to 50 was used, in order to allow for more rapid falling in of the largest estates, which are probably those of older people.

The estimate for Super-tax was obtained from the Estate Duty returns, on the assumption that estates of £20,000 and over were those of Super-tax payers.

In this case, since living persons are being considered, the multiplier is weighted from 40 at the £20,000 level to 15 for the largest estates. The income on the amounts leviable on a progression of levy from 8 to 20 per cent. was taken at 7 per cent. The Super-tax rates were filled in freehand, but as carefully as possible, with the help of the calculated table of the Commissioners of Inland Revenue, *e.g.*, estates of from £50,000 to £100,000 were taken for Super-tax at an average rate of 10 per cent., corresponding to an average income of £8,000.]

ANSWER TO QUESTION 14 (*as to methods of valuation, etc.*).

23. Problems of valuation, and of the finance of private businesses, might defeat the proposal for a levy. The purpose of imposing a maximum of 1,000 millions is to enable payment to be made within the year taken; it assumes that income and capital can stand between them a burden equal to 1½ times annual taxation as it exists. No one who has not access to evidence on the problems of valuation, additional to those which exist for Death Duties, and of company finance, can decide how formidable they are. The life interest is the chief of these problems, since settled property is about one-sixth of the value of capital holdings. The longer the time taken to determine special assessments, or the time given to make payment in special cases, the greater the danger that the levy will be raided for other purposes than debt repayment.

ANSWER TO QUESTION 15 (*additional points*).

24. If the evidence from experts in problems of valuation showed a levy of even 1,000 millions to be inexpedient, I would go back to the alternative proposals of my evidence-in-chief, raising the Sinking fund to 65 millions initially, if the method of a fixed charge were adopted. But I think that the other method, of budgeting for the debt as one surplus, and proceeding by decennial periods, is more elastic.*

* See Minutes of Evidence, page 424, para. 8 *et seq.*

APPENDIX IX.

A PLAN FOR THE REDUCTION OF THE BRITISH NATIONAL DEBT: SUBMITTED BY PROFESSOR R. A. LEHFELDT, D.Sc., UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG.

1. The notion of a Capital Levy is one for which it would, in any case, be difficult to win the approbation of business opinion in England; but it has, in fact, been so confused with the notion of steeply progressive taxation that it has come to be associated with the antipathetic feeling aroused by the latter, and has therefore not had a fair hearing for itself. This is the fault of the exponents of the Capital Levy, who, wishing to advocate fiscal changes of the kind loosely called socialistic, have not resisted the temptation to divert their proposals for a levy towards such aims. This has produced—or intensified—an impression among the public that a Capital Levy is a socialistic device.

2. It is not, really, anything of the sort; it is essentially a compounding of Income Tax. Like any other tax, it may be used for political ends, but there is nothing inherent in it that has one political complexion rather than another. It is well, therefore, to examine whether such compounding, apart from any change in the incidence of taxation, would be of use.

3. Among the circumstances of British finance at present, we may note, as outstanding, first the enormous capital amount of the debt which weighs upon the national credit; second, the obligation to convert large amounts of debt during the next five years or so; third, the widespread opinion that the present heavy taxation leads to the spending of a

good deal of income which, in the national interest, should be saved. It is as an attempt to mitigate these undesirable circumstances that the following scheme is put forward.

4. It is proposed to introduce a system of compounding Income Tax on “unearned” incomes, a system which should at first be voluntary, and if successful should, later, be made compulsory. It is proposed to deal only with the normal tax, leaving any question of the Super-tax for later consideration.

5. Most of the unearned income is in the hands of the older members of the community; if these were given the opportunity of compounding for future payments of Income Tax, a substantial capital sum would accrue to the Treasury, which could be used to deal with the maturing debt. To compound at the present rate of tax would, of course, deprive the taxpayer of the chance of a reduction in the rate, whatever that chance may be; but as compensation he would be relieved of tax on the increase in his property. He would then be perfectly clear as to his financial position, and the normal motive to save should be fully operative.

6. The compounding should be limited to the older people, because at earlier ages men are earning freely and adding to their fortunes, so that to guarantee them immunity from taxation would deprive the Treasury of access to too large an amount of new

wealth. The precise limit of age would be a matter for detailed consideration; we will assume fifty-five, provisionally.

7. The scheme, then, is to capitalise the "unearned" income of persons over fifty-five, at a rate of interest to be specified, say, 4½ per cent., in accordance with their expectation of life, and to allow them (later probably compel them) to compound for all future payments of normal tax on unearned income during their lifetime, by taking one-fifth of that amount.

8. *E. G.*, a man of sixty, has unearned income of £1,000 a year. His expectation of life (English life table No. 8) is 13·78 years. An annuity for this period, interest being reckoned at 4½ per cent., is worth 10·27 years' purchase, or £10,270. The levy would therefore be £2,054. This should be paid in cash or Government securities, taken at a price which would be published from time to time. The authorised prices would be such as to give a slight preference to loans maturing shortly. The levy would in this case reduce the interest payment on the National Debt by about £100 a year.

9. This outline of the scheme may be elucidated by various details. In any scheme a compromise between the interests of the taxpayer and the Treasury has to be aimed at, and accordingly features will be found that individually lean too much to one side or the other; the aim has been to effect a reasonable balance on the whole.

(a) No abatement is allowed on the taxable capital. Many taxpayers, having earned income as well as unearned, would continue to pay tax on that and would obtain the usual abatements. But to avoid hardship on the small rentier, the scheme should not be made compulsory on persons having less than a certain total income, say, £800 a year. The capital owned by the class below this limit is, in any case, not an important part of the whole.

(b) The saving in interest would be less than the tax foregone, since it is reckoned on the life interest of the capitalist and not on the full value of the capital. For instance in the case supposed above, if the taxpayer had no earned income, were married, and had no dependent children, the tax would be 4s. in the pound on £862 10s. or £132 10s. a year, so that there would be an immediate net loss to the Treasury of about £30 a year. The compensation for this lies, of course, in the fact that the reduction of debt is permanent, while as soon as the taxpayer dies and his property is bequeathed to someone else it would become liable to tax again. But the immediate loss has to be met, and it is proposed that it should be considered as a charge against the Sinking Fund. The scheme would, in fact,

be equivalent to a sinking fund that cannot be "raided"; so as this new means of debt redemption was provided it would be legitimate to utilise part of the £50 millions a years now set aside to aid in bringing it into operation.

(c) Whilst it is part of the scheme that the taxpayer, after compounding, should be free to augment his capital by economy and good management, it is not reasonable that he should be free from taxation on money received by bequest. An exception would have to be made in this sense. It should not be difficult to carry out, since property passing by bequest is exposed to the scrutiny of the Inland Revenue Department, as it is, and, moreover, only a minority of bequests are received by the older members of the community. Arrangements could be made for a fresh composition on the augmentation of capital received by bequest.

10. It would not seem that the administration of Income Tax would be rendered any more difficult by the change, though, of course, claims for refund of tax paid at the source would be involved; this should not be more troublesome than scrutiny of returns for tax due and for exemptions.

11. How much would be yielded by the scheme could only be ascertained by actuarial calculations on data which the present writer has not access to. The first levy should, however, be a considerable fraction of the six and a half milliards of internal debt, and there would be, subsequently, an annual contribution from taxpayers reaching the age that would bring them within the operation of the scheme.

12. One of the good features of it is that by beginning on a voluntary basis the financial operations involved would pass off quite smoothly, and the commercial world would become reassured that no dislocation of the money market was involved. Such fears are, indeed, groundless, as has been shown by writers on the Capital Levy; but experience would convince the world far more thoroughly than the arguments of economists, and much of the existing hostility to a levy would die away.

13. The plan may thus be expected to lead to the following main results:—

Provision of a capital sum sufficient to meet maturing obligations and make a large reduction of the debt; thus improving British national credit and facilitating conversion of other portions of debt, especially the 5 per cent. War Loan (1929-47).

Encouragement to thrift.

The University,
Johannesburg.

October, 1925.

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